

NEW ISSUE – BOOK-ENTRY ONLY

In the opinion of Orrick, Herrington & Sutcliffe LLP, 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 2007 Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the 2007 Series A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. In addition, Bond Counsel is of the opinion that the 2007 Series A Bonds and the interest thereon are exempt from taxation under existing laws of the State of Florida, except as to estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations, banks and savings associations. 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 2007 Series A Bonds. See "TAX MATTERS" herein.

\$139,505,000

**City of Gainesville, Florida
Variable Rate
Utilities System Revenue Bonds,
2007 Series A
(CUSIP No. 362848 ___)**



Dated: Date of Delivery

Due: October 1, 2036

The Variable Rate Utilities System Revenue Bonds, 2007 Series A (the "2007 Series A 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 2007 Series A Bonds. Individual purchases of 2007 Series A Bonds will be made in book-entry form only, in the Authorized Denominations referred to herein. See "THE 2007 SERIES A BONDS – Book-Entry Only System" herein.

The 2007 Series A Bonds will bear interest at variable rates, as more fully described herein. Initially, the 2007 Series A Bonds will bear interest at Weekly Rates, determined as described herein. While the 2007 Series A Bonds bear interest at Weekly Rates, interest will be payable on the first Business Day each calendar month. As more fully described herein, the Interest Mode (as defined herein) applicable to the 2007 Series A Bonds may be changed at the election of the City of Gainesville, Florida (the "City").

The 2007 Series A Bonds are subject to mandatory and optional redemption prior to maturity and to optional and mandatory tender for purchase as set forth herein.

Liquidity support in connection with tenders for purchase of 2007 Series A Bonds (in an amount equal to the principal amount thereof plus 36 days' interest thereon computed at a rate per annum of 12 percent and on the basis of a 365-day year) will be provided initially by State Street Bank and Trust Company (the "Bank") pursuant to a standby bond purchase agreement between the Bank and the City (the "Initial Liquidity Facility"). The obligation of the Bank to purchase 2007 Series A Bonds under the Initial Liquidity Facility will be subject to certain conditions, and such obligation may be terminated by the Bank without prior notice under certain circumstances. The Initial Liquidity Facility will have an initial stated termination date of March 1, 2014. The purchase price of 2007 Series A Bonds tendered or deemed tendered for purchase is payable solely from the proceeds of the remarketing thereof and moneys drawn under the Liquidity Facility then in effect, and is not payable from any funds of the City.

The 2007 Series A Bonds are being issued by the City to refund a portion of the City's outstanding Utilities System Revenue Bonds, 2003 Series A and 2005 Series A, as more particularly described herein.

The 2007 Series A 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).

PRICE – 100%

The 2007 Series A Bonds are offered when, as and if issued and received by the Underwriter, subject to approval of legality by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the City by Marion J. Radson, Esq., City Attorney, and for the Underwriter by Nixon Peabody LLP, New York, New York. It is expected that the 2007 Series A Bonds in definitive form will be available for delivery to DTC in New York, New York on or about March 1, 2007.

Bear, Stearns & Co. Inc.

February 26, 2007

CITY OF GAINESVILLE, FLORIDA

CITY OFFICIALS

Peegen Hanrahan..... Mayor
Stuart Craig Lowe Mayor Pro-Tem, Commissioner
Edward B. Braddy Commissioner
Richard J. Bryant..... Commissioner
John F. Donovan Commissioner
Scherwin L. Henry Commissioner
Jeanna Mastrodicasa..... Commissioner

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

Karen S. Johnson..... Interim General Manager for Utilities
George K. Allen. Assistant General Manager – Energy Supply
David E. Beaulieu, P.E..... Assistant General Manager – Energy Delivery
David M. Richardson, P.E..... Assistant General Manager – Water and Wastewater Systems
Jennifer L. Hunt, CPA..... Utility Chief Financial Officer
Edward J. Regan, P.E..... Assistant General Manager – Strategic Planning
Raymond O. Manasco, Jr., Esq. Utilities Attorney
Kathy E. Viehe Marketing and Communications Director
Albert E. White, M.Ag..... Community Relations Director

CONSULTANTS

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New York, New York
Bond Counsel

Public Financial Management, Inc.
Philadelphia, Pennsylvania
Financial Advisor

This Official Statement does not constitute an offer to sell the 2007 Series A 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 2007 Series A Bonds, and, if given or made, such information or representation must not be relied upon.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does 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 UNDERWRITER HAS ADVISED THE CITY THAT IN CONNECTION WITH THE OFFERING OF THE 2007 SERIES A BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2007 SERIES A BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The CUSIP number indicated on the cover page of this Official Statement has been assigned by an organization not affiliated with the City and is included solely for the convenience of the holders of the 2007 Series A Bonds. The City is not responsible for the selection or uses of this CUSIP number, nor is any representation made as to its correctness in the 2007 Series A Bonds or as indicated on the cover page of this Official Statement.

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Official Statement
relating to
\$139,505,000
City of Gainesville, Florida
Variable Rate
Utilities System Revenue Bonds,
2007 Series A

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 \$139,505,000 Variable Rate Utilities System Revenue Bonds, 2007 Series A (the “2007 Series A 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 2007 Series A Bonds (a) to provide funds to refund \$25,475,000 in aggregate principal amount of the City’s outstanding Utilities System Revenue Bonds, 2003 Series A (the “2003 Series A Bonds”), which were issued to finance the cost of acquisition and construction of certain improvements to an electric system, natural gas system, water system and wastewater system owned by the City and operated as a single combined public utility (the “System”) and (b) to provide funds to refund \$105,825,000 in aggregate principal amount of the City’s outstanding Utilities System Revenue Bonds, 2005 Series A (the “2005 Series A Bonds”), which were issued to (1) finance the cost of acquisition and construction of certain improvements to the System and (2) to refund the City’s Utilities System Commercial Paper Notes, Series C. See “PLAN OF REFUNDING” 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 2007 Series A Bonds are being issued pursuant to the Utilities System Revenue Bond Resolution adopted by the City on June 6, 1983, as heretofore amended, supplemented and restated (the “Resolution”), including as supplemented by the Eighteenth Supplemental Utilities System Revenue Bond Resolution (the “Eighteenth Supplemental Resolution”) authorizing the 2007 Series A Bonds which was adopted by the City on February 26, 2007; 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 2007 Series A 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 September 30, 2006, there were \$542,530,000 aggregate principal amount of bonds outstanding under the Resolution. The 2007 Series A Bonds, the bonds to be outstanding after the date of issuance of the 2007 Series A 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 2007 Series A Bonds, see “PLAN OF

REFUNDING,” “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 12-month period. Additional Bonds may be issued under the Resolution on a parity with the 2007 Series A Bonds subject to certain conditions provided in the Resolution.

The purchase price for 2007 Series A Bonds tendered or deemed tendered for purchase (see “THE 2007 SERIES A BONDS – Optional Tender for Purchase”, “– Mandatory Tender for Purchase” and “– Remarketing and Purchase Price” herein) is payable solely from the sources described under the caption “THE 2007 SERIES A BONDS – Remarketing and Purchase Price” herein, and is not payable from any funds of the City.

Liquidity support in connection with tenders for purchase of 2007 Series A Bonds initially will be provided by State Street Bank and Trust Company (the “Bank”), pursuant to a standby bond purchase agreement, dated as of March 1, 2007, between the City and the Bank (the “Initial Liquidity Facility”). The obligation of the Bank to purchase 2007 Series A Bonds under the Initial Liquidity Facility will be subject to certain conditions, and such obligation may be terminated by the Bank without prior notice under certain circumstances. See “THE INITIAL LIQUIDITY FACILITY” herein.

The Initial Liquidity Facility will have an initial stated termination date of March 1, 2014 (such date, as the same may be extended as provided in the Initial Liquidity Facility, is referred to herein as the Initial Liquidity Facility’s “Stated Termination Date”). The Initial Liquidity Facility contains provisions for renewal, in the sole discretion of the Bank.

The Eighteenth Supplemental Resolution contains provisions for obtaining a Substitute Liquidity Facility (hereinafter defined) in substitution for the Liquidity Facility then in effect. See “THE 2007 SERIES A BONDS – Substitution of Liquidity Facilities” herein.

Bear, Stearns & Co. Inc. will act as the initial remarketing agent for the 2007 Series A Bonds and will enter into a remarketing agreement with the City, dated as of March 1, 2007 (the “Remarketing Agreement”). U.S. Bank Trust National Association, New York, New York, will act as the initial tender agent for the 2007 Series A Bonds (in such capacity, the “Tender Agent”) and will enter into a tender agency agreement with the City, dated as of March 1, 2007 (the “Tender Agency Agreement”).

In addition to its Outstanding Bonds, as of September 30, 2006 the City also had outstanding \$68,500,000 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, 2006, the electric system, which served an average of 88,663 residential, industrial and commercial customers (representing approximately 76% of the population of the County), accounted for 70% of gross revenues and 61% of net revenues of the System. The System owns and operates two generating stations and a “landfill gas to energy” facility, having a combined net summer capability of 600 megawatts (“MW”), and owns an 11 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, 2006, the System's fuel mix was as follows: coal 67.1%; natural gas 24.3%; nuclear 5.0%; and oil 3.6%, as a percentage of net generation. For the fiscal year ended September 30, 2006, the System's fuel mix was as follows: coal 69.6%; natural gas 23.5%; nuclear 4.5%; and oil 2.4%, as a percentage of net generation.

The natural gas distribution system, which served an average of 32,522 customers during the fiscal year ended September 30, 2006, is comprised of 713 miles of plastic, steel and cast iron gas mains. The gas distribution system is served from four delivery points interconnected with facilities of the Florida Gas Transmission Company ("FGT").

The water system, which served an average of 66,478 customers during the fiscal year ended September 30, 2006, 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 59,206 customers during the fiscal year ended September 30, 2006, 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 five interexchange carriers, the local exchange carrier and seven wireless (cellular telephone) carriers and consists of 275 miles of fiber optic cable, 13 antenna sites, and associated network equipment. As of September 30, 2006, GRUCom provided broadband data and Internet services to 5,088 residential and commercial customers, and provides public safety radio to all the major public safety agencies in the County.

No Continuing Disclosure Undertaking

The City has not committed to provide continuing disclosure with respect to the 2007 Series A Bonds. The 2007 Series A Bonds are not subject to the provisions of Securities and Exchange Commission Rule 15c2-12 because the 2007 Series A Bonds are being issued in minimum denominations of \$100,000 with a tender option at par at least as frequently as every nine months. The City will covenant and agree in the Remarketing Agreement that if, as a result of a change in the Interest Mode (as defined in APPENDIX D hereto) applicable to the 2007 Series A Bonds, the 2007 Series A Bonds cease to be exempt under Rule 15c2-12, the City will execute a continuing disclosure agreement with respect to the 2007 Series A Bonds for the benefit of the holders and beneficial owners of such Bonds, in order to assist the Remarketing Agent in complying with Rule 15c2-12. Under such circumstances, the City will provide, or cause to be provided, in accordance with the aforementioned rule, (a) certain annual financial information and operating data, (b) timely notice of the occurrence of certain material events in connection with the 2007 Series A Bonds and (c) timely notice of a failure by the City to provide the required annual financial information on or before the date specified in such continuing disclosure agreement.

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. In addition, certain definitions applicable to the 2007 Series A Bonds are set forth in “CERTAIN DEFINITIONS APPLICABLE TO THE 2007 SERIES A BONDS” in APPENDIX D hereto.

There follow in this Official Statement brief descriptions of the security for the Bonds, the 2007 Series A Bonds, the Initial Liquidity Facility, the Bank, 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 REFUNDING

The 2007 Series A Bonds are being issued to (a) provide funds to refund the \$25,475,000 in aggregate principal amount of the 2003 Series A Bonds and the \$105,825,000 in aggregate principal amount of the 2005 Series A Bonds listed in the table below (collectively, the “Refunded Bonds”) and to (b) pay the costs of issuance of the 2007 Series A Bonds.

<u>Maturity Date (October 1)</u>	<u>Interest Rate</u>	<u>Amount to be Refunded</u>	<u>Redemption Date</u>	<u>Redemption Price (expressed as a percentage of principal amount)</u>
2003 Series A Bonds:				
2020	5.250%	\$ 1,375,000	10/01/13	100%
2021	5.250	1,450,000	10/01/13	100
2022	5.250	1,525,000	10/01/13	100
2024	5.000	1,680,000	10/01/13	100
2033	5.000	<u>19,445,000</u>	10/01/13	100
		<u>\$25,475,000</u>		
2005 Series A Bonds:				
2030	4.750%	\$ 12,675,000	10/01/15	100%
2035	5.000	75,390,000	10/01/15	100
2036	4.750	<u>17,065,000</u>	10/01/15	100
		<u>\$105,130,000</u>		

A portion of the proceeds of the 2007 Series A Bonds will be deposited with the Trustee pursuant to an Escrow Deposit Agreement (the “Escrow Deposit Agreement”) to be entered into, at or prior to the issuance of the 2007 Series A Bonds, between the City and the Trustee. The City also will deposit with the Trustee under the Escrow Deposit Agreement certain available amounts held in the Debt Service Account in the Debt Service Fund established pursuant to the Resolution. The amounts deposited with the Trustee under the Escrow Deposit Agreement will be invested in direct obligations of the United States of America (“Government Obligations”). The Government Obligations will mature at such times and in such amounts and will bear interest at such rates as will be sufficient, together with the uninvested cash held pursuant to the Escrow Deposit Agreement, (a) to pay when due interest on the Refunded Bonds on and prior to their respective redemption dates and (b) to pay the redemption price of the Refunded Bonds on such respective redemption dates. The Government Obligations and moneys deposited with the

Trustee pursuant to the Escrow Deposit Agreement will be deposited in an irrevocable escrow account established under the Escrow Deposit Agreement (the "Escrow Account") and pledged to secure the payment of the redemption price of and interest on the Refunded Bonds. Upon such deposit of Government Obligations and moneys in the Escrow Account and compliance with other provisions of the Resolution, the Refunded Bonds will be deemed paid and will 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 the Refunded Bonds shall cease, terminate and become void and be discharged and satisfied.

The accuracy of the mathematical computations of the adequacy of the principal of and interest on the Government Obligations and the moneys to be on deposit in the Escrow Account to provide for the payment when due of the interest on and the redemption price of the Refunded Bonds will be verified at the time of delivery of the 2007 Series A Bonds by Dufresne & Associates, CPA, PA. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein.

In contemplation of the issuance of the 2007 Series A Bonds, in December 2006, the City entered into a forward-starting floating-to-fixed rate interest rate swap transaction (the "2007 Series A Swap Transaction") with a counterparty having a counterparty risk rating of "Aaa" from Moody's Investors Service ("Moody's") and a counterparty credit rating of "AAA" from Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("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 Securities Industry and Financial Markets Association ("SIFMA") Municipal Swap Index, formerly known as the BMA Municipal Swap Index.

Concurrently with the issuance of the 2007 Series A Bonds, the City intends to designate the 2007 Series A Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution, and to provide (a) that net payments owed by it under the 2007 Series A Swap Transaction will constitute a "Parity Hedging Contract Obligation," 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 and (b) that any termination payments owed by it under the 2007 Series A Swap Transaction will constitute a "Subordinated Hedging Contract Obligation," secured by a pledge and assignment of the Subordinated Indebtedness Fund on a basis that is 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 thereof securing Subordinated Indebtedness. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" and "– Provisions Concerning Qualified Hedging Contracts" in APPENDIX C hereto.

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SOURCES AND USES OF FUNDS

The sources and uses of funds with respect to the 2007 Series A Bonds are estimated to be as follows:

Sources of Funds

Principal Amount of 2007 Series A Bonds	\$139,505,000
Amounts Available from Debt Service Account in Debt Service Fund Established under the Resolution	2,694,490
Total Sources	<u>\$142,199,490</u>

Uses of Funds

Deposit to Escrow Account	\$141,555,911
Payment of costs of issuance, including underwriter's discount	643,579
Total Uses	<u>\$142,199,490</u>

OUTSTANDING DEBT

The following table sets forth the outstanding debt of the City issued for the System, and the debt to be outstanding following the issuance of the 2007 Series A Bonds and the refunding of the Refunded Bonds. See "PLAN OF REFUNDING" herein.

Outstanding Debt of the City Issued for the System

Description	As of October 1, 2006			Principal to be Outstanding After Issuance of 2007 Series A Bonds
	Interest Rates	Due Dates (October 1)	Principal Outstanding	
Utilities System Revenue Bonds				
Series 1983	6.00%	2014	\$ 4,675,000	\$ 4,675,000
1992 Series B	6.50 – 7.50%	2008-2013	24,630,000	24,630,000
1996 Series A	5.75%	2007-2026	10,595,000	10,595,000
2003 Series A	4.625 – 5.25%	2015-2033	33,000,000	7,525,000
2003 Series B (federally taxable)	4.40%	2013	5,670,000	5,670,000
2003 Series C	2.75 – 5.00%	2007-2013	96,300,000	96,300,000
2005 Series A	4.75 – 5.00%	2021-2036	196,950,000	91,820,000
2005 Series B (federally taxable)	5.14 – 5.31% ⁽¹⁾	2015-2021	61,590,000	61,590,000
2005 Series C	Variable ⁽²⁾	2026	55,135,000	55,135,000
2006 Series A	Variable ⁽³⁾	2026	53,305,000	53,305,000
2007 Series A	Variable ⁽⁴⁾	2036	-	139,505,000
Total Utilities System Revenue Bonds			<u>\$541,850,000</u>	<u>\$550,750,000</u>
Subordinated Utilities System Revenue Bonds				
2002 Series A	Variable ⁽⁵⁾	2017	\$ 25,300,000	\$ 25,300,000
2002 Series B	Variable	2032	40,000,000	40,000,000
Utilities System Commercial Paper Notes				
Series C	Variable		\$ 0	\$ 0
Series D (federally taxable)	Variable		0	0
Total Subordinated Bonds			<u>\$ 65,300,000</u>	<u>\$ 65,300,000</u>

(footnotes on following page)

(footnotes from preceding page)

- (1) 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 is \$45,000,000, which corresponds 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 “Aaa” from Moody’s and a counterparty credit rating of “AAA” from 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 1-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).
- (2) 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 “Aaa” from Moody’s and a counterparty credit rating of “AAA” 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 10-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).
- (3) 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 “Aaa” 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 10-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” in APPENDIX C hereto).
- (4) 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 “Aaa” 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” in APPENDIX C hereto).
- (5) The City has entered into a floating-to-fixed rate interest rate Swap transaction with respect to the 2002 Series A Subordinated Bonds (the “2002 Series A Swap Transaction”). The counterparty to the 2002 Series A Swap Transaction currently has a counterparty risk rating of “Aaa” from Moody’s and a financial program rating of “AAA” from S&P. The term of the 2002 Series A Swap Transaction is identical to the term of the 2002 Series A Subordinated Bonds, and the notional amount of the 2002 Series A Swap Transaction will amortize at the same times and in the same amounts as the 2002 Series A Subordinated Bonds. The 2002 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 2002 Series A 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 2002 Series A Swap Transaction is to fix synthetically the interest rate on the 2002 Series A Subordinated Bonds at a rate of approximately 4.10% per annum. The City has not designated the 2002 Series A 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 2002 Series A 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.

APPENDIX E hereto shows (a) existing debt service requirements, including sinking fund installments, on the Outstanding Bonds, (b) the debt service requirements on the Refunded Bonds, (c) the debt service requirements on the 2007 Series A Bonds and (d) total debt service requirements on all Bonds to be Outstanding following the issuance of the 2007 Series A Bonds.

ADDITIONAL FINANCING REQUIREMENTS

The System's current six-year capital improvement program, as shown in the table below, requires a total of approximately \$543,496,000 in capital expenditures and \$5,730,000 for issuance costs between 2007 and 2012, inclusive, for total capital improvement program costs of \$549,226,000. Such amount is expected to be funded in part from remaining construction funds from previous financings, construction fund interest earnings, Revenues, and approximately \$286,500,000 of future additional Bonds and/or Subordinated Indebtedness (including additional commercial paper notes) that the System expects to issue in 2007, 2009 and 2011. 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 (dollars in thousands)

	Fiscal Years ending September 30,						
	2007	2008	2009	2010	2011	2012	2007-2012
Cash Balance October 1,	\$135,641,205	\$179,205,205	\$ 10,259,205	\$53,265,439	\$ 8,809,348	\$58,464,348	\$445,644,750
Source of Funds:							
Bond Financing	171,100,000	-	73,000,000	-	42,400,000	-	286,500,000
Revenues	4,600,000	3,800,000	61,389,000	-	56,620,000	-	126,409,000
Interest Earnings	6,689,000	47,000	403,234	52,909	1,451,000	61,473	8,704,616
Total Sources	<u>\$318,030,205</u>	<u>\$183,052,205</u>	<u>\$145,051,439</u>	<u>\$53,318,348</u>	<u>\$109,280,348</u>	<u>\$58,525,821</u>	<u>\$421,613,616</u>
Use of Funds:							
Construction Projects:							
Electric	\$95,192,000	\$124,312,000	\$66,022,000	\$25,536,000	\$22,673,000	\$23,693,000	\$357,428,000
Gas	10,504,000	10,105,000	3,674,000	3,792,000	3,800,000	3,850,000	35,725,000
Water	9,952,000	9,861,000	7,768,000	6,131,000	6,136,000	7,833,000	47,681,000
Wastewater	11,525,000	23,307,000	9,697,000	6,994,000	14,420,000	11,121,000	77,064,000
GRUCom	8,230,000	5,208,000	3,165,000	2,056,000	2,939,000	4,000,000	25,598,000
Total Construction	<u>135,403,000</u>	<u>172,793,000</u>	<u>90,326,000</u>	<u>44,509,000</u>	<u>49,968,000</u>	<u>50,497,000</u>	<u>543,496,000</u>
Issuance Costs	3,422,000	-	1,460,000	-	848,000	-	5,730,000
Total Uses	<u>138,825,000</u>	<u>172,793,000</u>	<u>91,786,000</u>	<u>44,509,000</u>	<u>50,816,000</u>	<u>50,497,000</u>	<u>549,226,000</u>
Cash Balance September 30,	<u>\$179,205,205</u>	<u>\$ 10,259,205</u>	<u>\$53,265,439</u>	<u>\$ 8,809,348</u>	<u>\$58,464,348</u>	<u>\$ 8,028,821</u>	<u>\$318,032,366</u>

In order to finance a portion of the costs of the System's capital program, the City expects to issue \$90,000,000 in aggregate principal amount of additional variable rate Bonds (the "Additional Variable Rate Bonds") on or about February 1, 2008. In anticipation of the issuance of the Additional Variable Rate Bonds, in October 2006, the City entered into two separate forward-starting floating-to-fixed rate interest rate swap transactions (collectively, the "Additional Floating-to-Fixed Swap Transactions"), one with a counterparty with a counterparty risk rating of "Aaa" from Moody's and a counterparty credit rating of "AAA" from S&P and the other with a counterparty with a counterparty credit rating of "Aaa" from Moody's and a counterparty credit rating of "AAA" from S&P. Each Additional Floating-to-Fixed Swap Transaction has an effective date that corresponds to the expected date

of issuance of the Additional Variable Rate Bonds. The term of each Additional Floating-to-Fixed Swap Transaction is identical to the anticipated term of the Additional Variable Rate Bonds, and the aggregate notional amounts of the Additional Floating-to-Fixed Swap Transactions will amortize at the same times and in the same amounts as the Additional Variable Rate Bonds are expected to be amortized. Each Additional Floating-to-Fixed Swap Transaction is subject to termination by the City or the respective counterparty at certain times and under certain conditions. During the term of each Additional Floating-to-Fixed Swap Transaction, the City will pay to the respective counterparty a fixed rate of 4.222% per annum and will receive from the counterparty a rate equal to the SIFMA Municipal Swap Index. The effect of the Additional Floating-to-Fixed Swap Transactions is to fix synthetically the interest rate on the Additional Variable Rate Bonds at a rate of approximately 4.222% per annum.

Concurrently with the issuance of the Additional Variable Rate Bonds, the City intends to designate each Additional Floating-to-Fixed Swap Transaction as a “Qualified Hedging Transaction” within the meaning of the Resolution, and to provide (a) that net payments owed by it under such Additional Floating-to-Fixed Swap Transaction will constitute a “Parity Hedging Contract Obligation,” 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 and (b) that any termination payments owed by it under such Additional Floating-to-Fixed Swap Transaction will constitute a “Subordinated Hedging Contract Obligation,” secured by a pledge and assignment of the Subordinated Indebtedness Fund on a basis that is 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 thereof securing Subordinated Indebtedness. See “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions” and “– Provisions Concerning Qualified Hedging Contracts” in APPENDIX C hereto. However, the City reserves the right to terminate either or both of the Additional Floating-to-Fixed Swap Transactions on or prior to their effective date and to issue all or a portion of the Additional Variable Rate Bonds as fixed rate Bonds. The decision as to whether or not either or both of the Additional Floating-to-Fixed Swap Transactions will be so terminated is expected to be made in or about January 2008.

SECURITY FOR THE BONDS

Pledge Under the Resolution

All Bonds issued under the Resolution, including the 2007 Series A 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 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 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 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 Bonds or the making of any payments under the Resolution. The 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 2007 Series A Bonds. See “ADDITIONAL FINANCING REQUIREMENTS” 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 12-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 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 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.

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 2007 SERIES A BONDS

General

The 2007 Series A Bonds will be issued in the aggregate principal amount of \$139,505,000, will be dated the date of their original issuance and will mature on October 1, 2036. Upon initial issuance, the 2007 Series A Bonds will be subject to the Weekly Mode and will bear interest at Weekly Rates, determined as described under the caption “Interest Rates and Interest Modes; Determination of Interest Rates” below. While the 2007 Series A Bonds are in the Weekly Mode, interest will be payable on the first Business Day (as defined in APPENDIX D hereto) of each calendar month.

As described under the caption “Change in Interest Modes” below, at the option of the City, and upon the satisfaction of certain conditions, the 2007 Series A Bonds may be changed from time to time to another Interest Mode. As more fully described under the caption “Interest Rates and Interest Modes; Determination of Interest Rates” below, (a) while the 2007 Series A Bonds are in the Daily Mode, such Bonds will bear interest at Daily Rates, (b) while the 2007 Series A Bonds are in the Weekly Mode, such Bonds will bear interest at Weekly Rates, (c) while the 2007 Series A Bonds are in the Flexible Mode, such Bonds will bear interest at Flexible Rates, (d) while the 2007 Series A Bonds are in the Term Mode, such Bonds will bear interest at Term Rates and (e) while the 2007 Series A Bonds are in the Fixed Mode, such Bonds will bear interest at the Fixed Rate. The Eighteenth Supplemental Resolution also provides that the 2007 Series A Bonds may be changed to a “Dutch auction” Interest Mode (referred to in the Eighteenth Supplemental Resolution as the “Auction Mode”), but requires that the City adopt an amendment to the Eighteenth Supplemental Resolution prior to the date on which such change is to be effective, to add to the Eighteenth Supplemental Resolution procedures relating to, among other things, (a) the determination of the dates on which auctions will be held and the length of the periods between auctions, (b) the conduct of auctions and (c) the determination of the interest rates to be borne by the 2007 Series A Bonds while subject to the Auction Mode. As a result, the provisions of the Auction Mode are not described in this Official Statement. Instead, it is anticipated that, should the 2007 Series A Bonds be changed to the Auction Mode, a remarketing memorandum or remarketing circular will be distributed describing the 2007 Series A Bonds during the Auction Mode.

The 2007 Series A Bonds will be issuable only in fully registered form in the Authorized Denominations. “Authorized Denominations” means (i) for 2007 Series A Bonds bearing interest at a Daily Rate, a Weekly Rate or a Flexible Rate, \$100,000 or any integral multiple of \$5,000 in excess thereof and (ii) for 2007 Series A Bonds bearing interest at a Term Rate or a Fixed Rate, \$5,000 or any integral multiple thereof. Upon initial issuance, the 2007 Series A Bonds will be issued in book-entry only form and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (together with any successor securities depository that may be appointed with respect to the 2007 Series A Bonds, “DTC”). See “Book-Entry Only System” below.

As more fully described under the captions “Optional Tender for Purchase” and “Mandatory Tender for Purchase” below, the 2007 Series A Bonds (or, for so long as the 2007 Series A Bonds are

subject to the book-entry only system of registration and transfer described in “Book-Entry Only System” below, beneficial ownership interests therein) are subject to optional tender for purchase and, under certain circumstances, mandatory tender for purchase. The Purchase Price (as defined in APPENDIX D hereto) for 2007 Series A Bonds (or portions thereof or beneficial ownership interests therein) tendered or deemed tendered for purchase is payable solely from the sources described under the caption “Remarketing and Purchase Price” below, and is not payable from any funds of the City.

Liquidity support in connection with tenders for purchase of the 2007 Series A Bonds will be provided initially by the Bank pursuant to the Initial Liquidity Facility. See “INTRODUCTORY STATEMENT – General”, “THE INITIAL LIQUIDITY FACILITY” and “THE BANK” herein. The Eighteenth Supplemental Resolution contains provisions for obtaining a Substitute Liquidity Facility (as defined in APPENDIX D hereto) in substitution for the Liquidity Facility then in effect. See “Substitution of Liquidity Facilities” below.

Except as described below, the principal or redemption price of the 2007 Series A Bonds will be payable at the principal office of the Paying Agent. Except as described below, interest on the 2007 Series A Bonds will be payable on each Interest Payment Date (as defined in APPENDIX D hereto) to the Holders thereof at the Record Date (as defined in APPENDIX D hereto) therefor, by check or draft of the Paying Agent mailed to each registered Holder at such person’s address as it appears on the books of registry kept at the principal office of the Bond Registrar pursuant to the Resolution or, at the option of any Holder of at least \$1,000,000 in principal amount of 2007 Series A Bonds, by wire transfer on such Interest Payment Date to such Holder thereof upon written notice from such Holder to the Paying Agent containing the wire transfer address (which shall be in the continental United States) to which such Holder wishes to have such wire directed and any other necessary instructions, if such written notice is received by the Paying Agent not less than five (5) days prior to the related Record Date, it being understood that such notice may refer to multiple interest payments. So long as the 2007 Series A Bonds are subject to the book-entry only system of registration and transfer described in “Book-Entry Only System” below, all payments with respect to the principal or redemption price of, and interest on, the 2007 Series A Bonds will be made to DTC.

Bear, Stearns & Co. Inc. has been appointed as the initial Remarketing Agent for the 2007 Series A Bonds by the City. Subject to the terms of the Remarketing Agreement, the Remarketing Agent will determine the interest rates on the 2007 Series A Bonds and will remarket 2007 Series A Bonds tendered or required to be tendered for purchase on a best efforts basis. The Remarketing Agent may resign upon _____ () days’ notice or be removed at any time by the City upon _____ () days’ notice.

U.S. Bank Trust National Association, New York, New York has been appointed as the initial Tender Agent for the 2007 Series A Bonds by the City. The Tender Agent may be removed or replaced by the City.

For definitions of certain terms applicable to the 2007 Series A Bonds that are not otherwise defined herein, see “CERTAIN DEFINITIONS APPLICABLE TO THE 2007 SERIES A BONDS” in APPENDIX D hereto.

Interest on the 2007 Series A Bonds

Interest on the 2007 Series A Bonds will be payable on each Interest Payment Date therefor. Holders of the 2007 Series A Bonds other than the Bank will be paid interest for the applicable Interest Period (as defined in APPENDIX D hereto) only in the amount that would have accrued at the applicable 2007 Series A Bond Rate (as defined in APPENDIX D hereto) or Rates in effect during the applicable Interest Accrual Period (as defined in APPENDIX D hereto), regardless of whether any of such 2007

Series A Bonds was a 2007 Series A Bank Bond (as defined in APPENDIX D hereto) during any portion of such Interest Accrual Period.

The Interest Payment Dates with respect to each 2007 Series A Bond (other than any 2007 Series A Bank Bond) are as follows: (a) each date on which the 2007 Series A Bonds are subject to mandatory tender for purchase (see “Mandatory Tender for Purchase” below); (b) for 2007 Series A Bonds in the Daily Mode or the Weekly Mode, the first Business Day of each calendar month; (c) for 2007 Series A Bonds in the Flexible Mode, the first Business Day following the end of each Interest Period with respect thereto; (d) for 2007 Series A Bonds in the Term Mode or the Fixed Mode, semi-annually on each April 1 and October 1 commencing on the first April 1 or October 1 occurring after the conversion to such Interest Mode; *provided, however*, that if such first date occurs less than three (3) months after such conversion, the first Interest Payment Date will be on the second such date following such conversion; and (e) the maturity or redemption date thereof.

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

Interest will be payable to the Holders of the 2007 Series A Bonds at the relevant Record Date. The “Record Date” (a) with respect to an Interest Payment Date for 2007 Series A Bonds in the Term Mode or the Fixed Mode, is the close of business on the fifteenth (15th) day (whether or not a Business Day) of the next preceding calendar month (except that in the case of any Interest Payment Date occurring on any date on which the 2007 Series A Bonds are subject to mandatory tender for purchase, the Record Date therefor will be the close of business on the Business Day immediately preceding such Interest Payment Date) and (b) with respect to an Interest Payment Date for 2007 Series A Bonds in the Daily Mode, the Weekly Mode or the Flexible Mode, is the close of business on the Business Day immediately preceding such Interest Payment Date.

The maximum rate of interest (the “Maximum Rate”) permitted to be borne by 2007 Series A Bonds (other than 2007 Series A Bank Bonds) is 12 percent per annum, or such higher rate as shall be approved by the City if (a) an opinion of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions shall have been delivered to the Notice Parties (as defined in APPENDIX D hereto) to the effect that any such change in the Maximum Rate (i) is authorized or permitted by the Resolution and the Act (as defined in the Resolution) and (ii) will not cause the interest on the 2007 Series A Bonds to become includable in gross income for federal income tax purposes and (b) if the 2007 Series A Bonds are in the Daily Mode or the Weekly Mode, the Liquidity Facility is modified (if necessary) so that its stated amount or the commitment of the Bank thereunder, as the case may be, is increased to give effect to the increased Maximum Rate.

Interest on the 2007 Series A Bonds in the Daily, Weekly or Flexible Mode will be computed on the basis of a 365- or 366-day year, as applicable, for actual days elapsed and interest on the 2007 Series A Bonds in the Term or Fixed Mode will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Interest Rates and Interest Modes; Determination of Interest Rates

The 2007 Series A Bonds initially will be in the Weekly Mode and will bear interest at Weekly Rates until such time (if any) as the 2007 Series A Bonds are changed to the Auction Mode, the Daily Mode, the Flexible Mode, the Term Mode or the Fixed Mode. The interest rate to be in effect with respect to a particular 2007 Series A Bond (or beneficial ownership interest therein) for a particular period of time as described below (an “Interest Period”) will be determined by the Remarketing Agent as the

minimum interest rate necessary in its judgment to be borne by such 2007 Series A Bond (or beneficial ownership interest therein) for the relevant Interest Period to enable the Remarketing Agent to remarket such 2007 Series A Bond (or beneficial ownership interest therein) on the Rate Adjustment Date (as defined in APPENDIX D hereto) therefor at a price (without regard to accrued interest) equal to 100 percent of the principal amount thereof (each such rate being referred to as a “Market Rate”), but not in excess of the Maximum Rate. Each date on which an interest rate is determined for any 2007 Series A Bond (or beneficial ownership interest therein) is referred to as a “Rate Determination Date.”

If for any reason the Remarketing Agent fails to determine the Market Rate for any 2007 Series A Bond (or beneficial ownership interest therein) on the Rate Determination Date therefor, or any Market Rate determined by the Remarketing Agent is determined by a court of competent jurisdiction to be invalid or unenforceable, then, commencing on such Rate Determination Date or the date with respect to which such court’s determination shall be effective, as the case may be, such 2007 Series A Bond (or beneficial ownership interest therein) will bear interest at a rate equal to 100 percent of the SIFMA Index most recently announced on or prior to each Rate Determination Date, but not in excess of the Maximum Rate. The “SIFMA Index” is an index based upon the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meet specific criteria established by SIFMA and effective for a particular Rate Determination Date. If the SIFMA Index ceases to be published, it will be replaced by the most comparable published index designated by the Remarketing Agent, or in the absence of such designation, any other dealer bank or broker-dealer competent in such matters and chosen by the City.

The various interest rates for the 2007 Series A Bonds will be determined as follows, and will be effective for the periods described below:

Daily Rate. While in the Daily Mode, the 2007 Series A Bonds will bear interest at Daily Rates determined by the Remarketing Agent as the Market Rate therefor not later than 12:30 p.m., New York City time, on each Business Day. Each Daily Rate will remain in effect for the Interest Period beginning on the Business Day of its determination and ending on the day preceding the next succeeding Business Day.

Weekly Rate. While in the Weekly Mode, the 2007 Series A Bonds will bear interest at Weekly Rates determined by the Remarketing Agent as the Market Rate for each Interest Period during such Mode. Each Interest Period during the Weekly Mode will commence on a Wednesday and extend through Tuesday of the following week. The Weekly Rate for each such Interest Period will be determined by the Remarketing Agent not later than 5:00 p.m., New York City time, on Tuesday of each week, or if such day is not a Business Day, on the next preceding Business Day (or such other day as may be specified by the Remarketing Agent after notice to the Tender Agent and the Holders of the 2007 Series A Bonds).

Flexible Rate. While in the Flexible Mode, the 2007 Series A Bonds (or beneficial ownership interests therein) will bear interest at Flexible Rates and for Interest Periods determined by the Remarketing Agent. The duration of each Interest Period for each 2007 Series A Bond (or beneficial ownership interest therein) in the Flexible Mode will be the period determined by the Remarketing Agent to be the Interest Period which, in its judgment, will produce the greatest likelihood of the lowest overall debt service costs on the 2007 Series A Bonds prior to the maturity thereof, given prevailing market conditions, and will be a period of not less than one (1) nor more than 270 days in length and will end on a day preceding a Business Day; *provided, however*, that no Interest Period during the Flexible Mode may extend beyond the fifth (5th) Business Day preceding the Liquidity Facility Expiration Date (as defined in APPENDIX D hereto) of the Liquidity Facility then in effect. While in the Flexible Mode, different 2007 Series A Bonds (or beneficial ownership interests therein) may have different

Interest Periods. The Remarketing Agent will determine the Flexible Rates and Interest Periods for the 2007 Series A Bonds (or beneficial ownership interests therein) in the Flexible Mode not later than 12:30 p.m., New York City time, on the first Business Day in each Interest Period, and each Flexible Rate will be the Market Rate determined by the Remarketing Agent for the relevant Interest Period.

Term Rate. The City may designate a Term Mode for the 2007 Series A Bonds with an Interest Period of any duration specified by the City that is longer than a year and ends on the last day of any March or September; *provided, however*, that no Interest Period during a Term Mode may extend beyond the fifth (5th) Business Day preceding the Liquidity Facility Expiration Date of the Liquidity Facility then in effect. During each such Interest Period, the 2007 Series A Bonds will bear interest at the Term Rate for such Interest Period, which will be determined by the Remarketing Agent as the Market Rate therefor on any date designated by the Remarketing Agent which is not more than 35 days before, nor later than the last Business Day preceding, such Interest Period.

Fixed Rate. The City may direct that the interest rate on the 2007 Series A Bonds be fixed to the maturity date thereof. The Fixed Rate to be borne by the 2007 Series A Bonds to their maturity will be determined by the Remarketing Agent as the Market Rate therefor on any date designated by the Remarketing Agent which is not more than 35 days before, nor later than the last Business Day preceding, the effective date of such Fixed Rate.

The determination by the Remarketing Agent of each interest rate for the 2007 Series A Bonds shall be conclusive and binding on the City, the Tender Agent, the Remarketing Agent, the Bank and the owners of the 2007 Series A Bonds. The interest rates in effect for the 2007 Series A Bonds from time to time will be available to each owner of the 2007 Series A Bonds who requests such information, by telephone or in writing (including by facsimile or other electronic means), (a) if the 2007 Series A Bonds are in the Daily Mode, the Weekly Mode or the Flexible Mode, from the Remarketing Agent and (b) if the 2007 Series A Bonds are in the Term Mode or the Fixed Mode, from the Tender Agent.

Change in Interest Modes

If the 2007 Series A Bonds are in any Interest Mode other than the Fixed Mode, the City may cause the 2007 Series A Bonds to be changed to different Interest Mode or to a Term Mode with an Interest Period of different duration. A change from the Daily or Weekly Mode to any other Interest Mode may be made on any Interest Payment Date. A change from the Flexible Mode to any other Interest Mode may be made on the day that is the latest Interest Payment Date for all Interest Periods for all of the 2007 Series A Bonds (or beneficial ownership interests therein) then in effect or any Business Day thereafter. A change from the Term Mode to any other Interest Mode or to an Interest Period of different duration may be made on any day on which the 2007 Series A Bonds may be redeemed at the election of the City at a redemption price of 100 percent of the principal amount thereof, plus accrued interest, if any, thereon (see “Redemption Provisions – *Optional Redemption*” below). In any such case, the 2007 Series A Bonds will be subject to mandatory tender for purchase on the date on which the proposed change is to occur (see “Mandatory Tender for Purchase” below). Any date on which a change to a different Interest Mode or to an Interest Period of different duration in the Term Mode is proposed to occur is referred to as a “Mode Adjustment Date.”

Any change in an Interest Mode or an Interest Period in the Term Mode is subject to (a) receipt by the Tender Agent and the Remarketing Agent on the first day of such Interest Mode or Interest Period, as the case may be, of an opinion of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their

political subdivisions to the effect that the change in Interest Mode or Interest Period, as the case may be, will not adversely affect the exclusion of interest on any 2007 Series A Bond from gross income for federal income tax purposes and is authorized by applicable law and (b) the Liquidity Facility then in effect being in an amount at least equal to the Liquidity Facility Requirement (as defined in APPENDIX D hereto) applicable to the Interest Mode to become effective. If either of the above conditions is not met, then the 2007 Series A Bonds will remain in the Interest Mode which they are then in or remain subject to the same Interest Period as then is applicable, as the case may be; *provided, however*, that if the proposed change was from the Term Mode to any other Interest Mode and the City causes to be delivered to the Tender Agent and the Remarketing Agent an opinion of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that such change in Interest Mode will not adversely affect the exclusion of interest on any 2007 Series A Bond from gross income for federal income tax purposes and is authorized by applicable law, then, so long as the Liquidity Facility then in effect (taking into account any amendments being made thereto in connection therewith) shall provide that the amount available to be drawn or advanced thereunder shall be at least equal to the principal amount of the Outstanding 2007 Series A Bonds (other than 2007 Series A Bank Bonds) plus 36 days' interest thereon computed at a rate per annum equal to the Maximum Rate and on the basis of a 365-day year, the 2007 Series A Bonds will be changed to the Weekly Mode. In any such event, the 2007 Series A Bond will remain subject to mandatory tender to the same extent as if the change in Interest Mode or Interest Period, as the case may be, took place.

When a change in Interest Mode is to be made, the Tender Agent is required to give notice of the proposed change to the Holders of the 2007 Series A Bonds (a) if the 2007 Series A Bonds are then in the Daily Mode or the Weekly Mode, not less than fifteen (15) nor more than 60 days prior to the proposed Mode Adjustment Date and (b) if the 2007 Series A Bonds are in any other Interest Mode, not less than thirty (30) nor more than 60 days prior to the proposed Mode Adjustment Date. Such notice will state, among other things, that the 2007 Series A Bonds will be subject to mandatory tender for purchase on the proposed Mode Adjustment Date.

Optional Tender for Purchase

2007 Series A Bonds in the Daily Mode or the Weekly Mode (or portions thereof or beneficial ownership interests therein in a principal amount equal to, and leaving untendered, an Authorized Denomination) are subject to tender for purchase at the option of the Holder thereof (or, if the 2007 Series A Bonds are subject to the book-entry only system of registration and transfer described in "Book-Entry Only System" below, at the option of the Beneficial Owner (as defined in "Book-Entry Only System" below) thereof), from and to the extent of the funds described under the caption "Remarketing and Purchase Price" below, at the Purchase Price therefor, on the following dates (each such date being referred to herein as a "Purchase Date"):

Daily Mode. 2007 Series A Bonds (or portions thereof or beneficial ownership interests therein) in the Daily Mode may be tendered for purchase on any Business Day, upon irrevocable notice of tender given to the Tender Agent as described below by telephone, facsimile or other electronic means no later than 11:00 a.m., New York City time, on the Purchase Date.

Weekly Mode. 2007 Series A Bonds (or portions thereof or beneficial ownership interests therein) in the Weekly Mode may be tendered for purchase on any Business Day, upon irrevocable notice of tender given to the Tender Agent as described below in writing (including by facsimile or other electronic means) no later than 5:00 p.m., New York City time, on a Business Day at least seven calendar days prior to the Purchase Date.

Each notice of exercise of the election to have a 2007 Series A Bond (or portion thereof or beneficial ownership interest therein) purchased will be irrevocable and effective upon receipt, and must specify the principal amount of the 2007 Series A Bond (or portion thereof or beneficial ownership interest therein) to be purchased, the Purchase Date and the name of the Holder of the 2007 Series A Bond (or, if the 2007 Series A Bonds are subject to the book-entry only system of registration and transfer described in “Book-Entry Only System” below, the name and number of the account to which such beneficial ownership interest is credited by DTC) and must be given by the Holder thereof or such Holder’s attorney duly authorized in writing (or, if the 2007 Series A Bonds are subject to such book-entry only system of registration and transfer, by the Beneficial Owner thereof or such Beneficial Owner’s attorney duly authorized in writing).

Holders (or, if applicable, Beneficial Owners) of 2007 Series A Bonds (or portions thereof or beneficial ownership interests therein) that have elected to require purchase as described above will be deemed, by such election, to have agreed irrevocably to sell the 2007 Series A Bonds (or portions thereof or beneficial ownership interests therein) to any purchaser determined in accordance with the provisions of the Eighteenth Supplemental Resolution on the dated fixed for purchase at the Purchase Price therefor, and will be required to deliver (or cause to be delivered) such tendered 2007 Series A Bonds (or portions thereof) to the office of the Tender Agent by 12:00 p.m., New York City time, on the Purchase Date, in each such case, endorsed in blank (or accompanied by a bond power executed in blank). See “Remarketing and Purchase Price” below.

Mandatory Tender for Purchase

The 2007 Series A Bonds must be tendered for purchase, from and to the extent of the funds described under the caption “Remarketing and Purchase Price” below, at the Purchase Price therefor, on the following dates (each such date being referred to herein as a “Purchase Date”):

Expiration of Liquidity Facility: on the fifth (5th) Business Day prior to the Liquidity Facility Expiration Date,

Substitution of Liquidity Facility: on any Substitution Date (as defined in APPENDIX D hereto) while the 2007 Series A Bonds are in the Daily Mode or the Weekly Mode; *provided, however,* that if the City shall have delivered to the Notice Parties, by not later than the Business Day prior to the date on which the Tender Agent is required to give notice of such mandatory tender pursuant to the Eighteenth Supplemental Resolution, written evidence from each Rating Agency (as defined in APPENDIX D hereto) then rating the 2007 Series A Bonds to the effect that such Rating Agency has reviewed the proposed Substitute Liquidity Facility and that the substitution of such Substitute Liquidity Facility for the Liquidity Facility then in effect will not result in a withdrawal, suspension or reduction in such Rating Agency’s ratings on the 2007 Series A Bonds, then the 2007 Series A Bonds shall not be subject to mandatory tender for purchase on the Substitution Date,

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

Rate Adjustment Dates: on each Rate Adjustment Date while the 2007 Series A Bonds are in (a) the Flexible Mode or (b) the Term Mode,

City Option in Term Mode: at the option of the City while the 2007 Series A Bonds are in the Term Mode, on any day on which such 2007 Series A Bonds may then be redeemed at the

election of the City at a redemption price of 100 percent of the principal amount thereof, plus accrued interest, if any, thereon (see “Redemption Provisions – *Optional Redemption*” below),

Amendment to the Eighteenth Supplemental Resolution or the Resolution: on (a) any Business Day while the 2007 Series A Bonds are in the Daily Mode or Weekly Mode, (b) any Rate Adjustment Date while the 2007 Series A Bonds are in the Flexible Mode, or (c) any Business Day on which the 2007 Series A Bonds may then be redeemed at the election of the City at a redemption price of 100 percent of the principal amount thereof, plus accrued interest, if any, thereon (see “Redemption Provisions – *Optional Redemption*” below) while such 2007 Series A Bonds are in the Term Mode, in any such case, that is at least fifteen (15) days following delivery to the Notice Parties of a certificate of an authorized officer of the City to the effect that the City is causing the 2007 Series A Bonds to become subject to mandatory tender in order to enable any Supplemental Resolution amending the Eighteenth Supplemental Resolution or the Resolution to take effect; *provided, however*, that such certificate is accompanied by an opinion of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that such amendments are authorized or permitted by the Resolution and will not cause the interest on the 2007 Series A Bonds to become includable in gross income for federal income tax purposes, and

Liquidity Facility Default: on the fifteenth (15) day (or if such day is not a Business Day, on the next preceding Business Day) after receipt by the Tender Agent of notice from the Bank to the effect that an “event of default” (or similar provision) on the part of the City has occurred and is continuing under the Liquidity Facility, and directing the Tender Agent to make a draw or request for funding, as the case may be, under the Liquidity Facility to effect a mandatory tender of all of the 2007 Series A Bonds.

Except in the case of (a) a Rate Adjustment Date for 2007 Series A Bonds in the Flexible Mode and (b) a mandatory tender described under “*Liquidity Facility Default*” above, the Tender Agent will give notice of mandatory tender for purchase to each Holder of the 2007 Series A Bonds by mail, first-class postage prepaid, (i) if the 2007 Series A Bonds are then in the Daily Mode or the Weekly Mode, not less than fifteen (15) nor more than 60 days prior to the Purchase Date and (ii) if the 2007 Series A Bonds are in any other Interest Mode, not less than thirty (30) nor more than 60 days prior to the Purchase Date. In the case of a mandatory tender described under “*Liquidity Facility Default*” above, the Tender Agent will give notice of mandatory tender for purchase to each Holder of the 2007 Series A Bonds by mail, first-class postage prepaid, as promptly as practicable following receipt by it of the notice from the Bank referred to under “*Liquidity Facility Default*” above. While the 2007 Series A Bonds are subject to the book-entry only system of registration and transfer described in “*Book-Entry Only System*” below, such notice will be given only to DTC.

Holders (or, if applicable, Beneficial Owners) of 2007 Series A Bonds (or beneficial ownership interests therein) will be deemed to have agreed irrevocably to sell 2007 Series A Bonds (or portions thereof or beneficial ownership interests therein) subject to mandatory tender for purchase to any purchaser determined in accordance with the provisions of the Eighteenth Supplemental Resolution on the date fixed for purchase at the Purchase Price therefor, and will be required to deliver (or cause to be delivered) such tendered 2007 Series A Bonds (or portions thereof) to the office of the Tender Agent by 12:00 p.m., New York City time, on the Purchase Date, endorsed in blank (or accompanied by a bond power executed in blank). See “*Remarketing and Purchase Price*” below.

Remarketing and Purchase Price

In the event that notice is received of any optional tender of 2007 Series A Bonds (or portions thereof or beneficial ownership interests therein) or if the 2007 Series A Bonds become subject to mandatory tender for purchase, except in the case of a mandatory tender (a) in connection with the expiration of the Liquidity Facility then in effect and (b) upon a default on the part of the City under the Liquidity Facility then in effect, the Remarketing Agent will use its best efforts, subject to certain conditions, to sell the tendered 2007 Series A Bonds (or portions thereof or beneficial ownership interests therein) at a price equal to the Purchase Price therefor, on the forthcoming optional or mandatory tender date.

The Purchase Price of 2007 Series A Bonds (or portions thereof or beneficial ownership interests therein) tendered for purchase is payable, first, from and to the extent of moneys derived from the remarketing of 2007 Series A Bonds (or portions thereof or beneficial ownership interests therein) by the Remarketing Agent and, if such remarketing proceeds are insufficient, from moneys drawn by the Tender Agent under the Liquidity Facility. The obligation of the Bank to purchase 2007 Series A Bonds under the Initial Liquidity Facility is subject to certain conditions, and such obligation may be terminated by the Bank without prior notice under certain circumstances. See “THE INITIAL LIQUIDITY FACILITY” herein.

The City is not required under the Eighteenth Supplemental Resolution to pay the Purchase Price of the tendered 2007 Series A Bonds (or portions thereof or beneficial ownership interests therein) which are not remarketed or purchased with funds drawn under the Liquidity Facility.

Upon delivery of any 2007 Series A Bond (or portion thereof) on the Purchase Date therefor or of any Untendered 2007 Series A Bond (hereinafter defined) on or after the Purchase Date therefor at the office of the Tender Agent, endorsed in blank (or accompanied by a bond power executed in blank) to the extent of the portion to be purchased, the Tender Agent will pay to the Holder of such 2007 Series A Bond (or portion thereof) or such Untendered 2007 Series A Bond, as the case may be, the Purchase Price therefor from funds available for such purchase held in the applicable account in the 2007 Series A Bond Purchase Fund (as defined in APPENDIX D hereto).

While the 2007 Series A Bonds are subject to the book-entry only system of registration and transfer described in “Book-Entry Only System” below, to the extent permitted pursuant to the procedures of DTC, any beneficial ownership interest in such 2007 Series A Bonds will be deemed tendered to the Tender Agent endorsed in blank when DTC or any Direct Participant or Indirect Participant (as such terms are defined in “Book-Entry Only System” below) which owns such beneficial ownership interest as nominee for the Beneficial Owner thereof has received sufficient instructions from the person to whose account at DTC such beneficial ownership interest is credited to transfer such beneficial ownership interest to the account of the Tender Agent and such transfer is effected, and payment of the Purchase Price of such beneficial ownership interest will be deemed to be made when the Tender Agent gives sufficient instructions to (while maintaining sufficient funds at or delivering such funds to) DTC or such Participant to credit such Purchase Price to the account of such person or such Participant.

Untendered 2007 Series A Bonds

With respect to any 2007 Series A Bond (or portion thereof) (a) for which notice was given in connection with an optional tender but which is not tendered for purchase by 12:00 p.m., New York City time, on the applicable Purchase Date or (b) which is required to be tendered in connection with a mandatory tender and which is not tendered for purchase by 12:00 p.m., New York City time, on the applicable Purchase Date (such 2007 Series A Bonds (or portions thereof) being referred to herein as “Untendered 2007 Series A Bonds”), such 2007 Series A Bond (or portion thereof) will, upon deposit in

the applicable account in the 2007 Series A Bond Purchase Fund of an amount sufficient to pay the Purchase Price of such 2007 Series A Bond (or portion thereof) on such Purchase Date, be deemed to have been tendered and sold on such Purchase Date and thereafter, the person who has failed to deliver such 2007 Series A Bond (or portion thereof) will not be entitled to any payment (including any interest accrued subsequent to such Purchase Date) in respect thereof other than the Purchase Price for such 2007 Series A Bond (or portion thereof) and, unless such Purchase Price includes accrued interest to such Purchase Date, such accrued interest, and such Untendered 2007 Series A Bond will no longer be entitled to the benefit of the Resolution, except for the payment of the Purchase Price and accrued interest, if any.

2007 Series A Bank Bonds

Any 2007 Series A Bond (or portion thereof or beneficial ownership interest therein) which has been tendered or deemed tendered for purchase on a Purchase Date and which has been purchased with the proceeds of a drawing under the Liquidity Facility will be and constitute a 2007 Series A Bank Bond under the Eighteenth Supplemental Resolution. Each 2007 Series A Bank Bond will bear interest from and including the date on which such 2007 Series A Bond was so purchased (the “Bank Purchase Date”) at the applicable Bank Rate (as defined in APPENDIX D hereto) or Rates in effect from time to time during such period.

The Eighteenth Supplemental Resolution provides that any 2007 Series A Bond that is a 2007 Series A Bank Bond will be subject to mandatory redemption through sinking fund installments as follows: Each 2007 Series A Bank Bond outstanding will be redeemed during the period commencing with a date (the “Term-Out Date”) which is 180 days after the Bank Purchase Date (or, if the purchase was made as a result of the Bank’s election to cause the 2007 Series A Bonds to become subject to mandatory tender for purchase following the occurrence of an “event of default” (or similar provision) under the Liquidity Facility then in effect (see “Mandatory Tender for Purchase – *Liquidity Facility Default*” above), the earlier of (i) 180 days after the Bank Purchase Date or (ii) the Liquidity Facility Expiration Date) and extending to the earlier of (a) the date that is the fifth anniversary of the relevant Bank Purchase Date or (b) the maturity date of the 2007 Series A Bonds, in equal semi-annual installments, payable on the Term-Out Date and at the end of each six-month period thereafter. In order to provide for such retirement, the Eighteenth Supplemental Resolution establishes sinking fund installments with respect to each such 2007 Series A Bank Bond, which sinking fund installments will be due in semi-annual installments, on the Term-Out Date and at the end of each six-month period thereafter with respect to each such 2007 Series A Bank Bond. For purposes of the two preceding sentences, each semi-annual payment date or due date, as the case may be, will be the date that numerically corresponds with the Term-Out Date or, if there is no such numerically corresponding date in the applicable month, on the last day of such month (or, if such day is not a Business Day, the next succeeding Business Day). The redemption price will be the principal amount of the 2007 Series A Bank Bonds to be redeemed plus accrued interest thereon to the date of redemption. In the event that the principal amount of 2007 Series A Bank Bonds to be redeemed on any such redemption date is not equal to an Authorized Denomination, the principal amount of 2007 Series A Bank Bonds to be redeemed will be rounded to the next higher Authorized Denomination. Notwithstanding anything to the contrary contained in the Resolution, no credits shall be applied against any sinking fund installment due as described in this paragraph.

The Eighteenth Supplemental Resolution also provides that each 2007 Series A Bank Bond will constitute an “Option Bond” within the meaning of the Resolution and, as such, may be tendered or deemed tendered to the City for payment upon the occurrence of certain “events of default” on the part of the City under the Liquidity Facility. See the second paragraph under “THE INITIAL LIQUIDITY FACILITY – Remedies of the Bank” herein. Upon any such tender or deemed tender for purchase, the 2007 Series A Bank Bonds so tendered or deemed tendered will be due and payable immediately.

Redemption Provisions

Optional Redemption

The 2007 Series A 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 thereof together with accrued interest, if any, to the redemption date:

- (a) if the 2007 Series A Bonds are in a Daily or Weekly Mode, on any Business Day;
- (b) if the 2007 Series A Bonds are in a Flexible or Term Mode, on any Rate Adjustment Date for the 2007 Series A Bonds to be redeemed; and
- (c) if the 2007 Series A Bonds are in the Fixed Mode, on the first day of the Fixed Mode for the 2007 Series A Bonds to be redeemed.

In addition, if the 2007 Series A Bonds are in the Term Mode or the Fixed Mode, the 2007 Series A Bonds will be subject to redemption at the election of the City on any date prior to their stated maturity, in whole or in part:

- (a) unless clause (b) below applies, during any Interest Period therefor, on any day, but only after the fifth (5th) anniversary of the first day of such Interest Period, at a redemption price equal to 100 percent of the principal amount thereof; or
- (b) during any Interest Period therefor, on any alternate dates and at any alternate prices stated in a certificate of an authorized officer of the City delivered to the Notice Parties prior to the Rate Determination Date for such Interest Period and accompanied by an opinion of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that such substitution of such alternate dates and prices will not adversely affect the exclusion of interest on any 2007 Series A Bond from the gross income of the owner thereof for federal income tax purposes;

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

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Sinking Fund Redemption

The 2007 Series A Bonds 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 percent of the principal amount thereof, together with accrued interest, if any, to the redemption date:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2008	\$ 245,000	2023	\$ 400,000
2009	255,000	2024	2,095,000
2010	265,000	2025	2,185,000
2011	275,000	2026	2,270,000
2012	290,000	2027	2,365,000
2013	300,000	2028	2,460,000
2014	310,000	2029	2,565,000
2015	325,000	2030	15,695,000
2016	340,000	2031	16,345,000
2017	355,000	2032	17,015,000
2018	365,000	2033	17,720,000
2019	385,000	2034	15,720,000
2020	1,775,000	2035	16,370,000
2021	1,850,000	2036	17,040,000*
2022	1,925,000		

* final maturity

Taking into consideration the sinking fund redemptions set forth above, the average life of the 2007 Series A Bonds, calculated from the date of delivery of such Bonds, is approximately 24.955 years.

The particular 2007 Series A Bonds or portions thereof to be redeemed through mandatory sinking fund installments shall be selected by the Trustee in the manner described below under "Selection of 2007 Series A Bonds to be Redeemed." So long as a book-entry system is used for determining ownership of the 2007 Series A Bonds, DTC or its successor and Direct Participants and Indirect Participants will determine the particular ownership interests of 2007 Series A Bonds to be redeemed through mandatory sinking fund installments.

In determining the amount of 2007 Series A Bonds to be redeemed with any sinking fund installment, there will be deducted the principal amount of any 2007 Series A Bonds which have been purchased, to the extent permitted by the Resolution, with amounts in the Debt Service Account (exclusive of amounts deposited from proceeds of Bonds). In addition, if there is any redemption or purchase of any 2007 Series A Bonds with amounts other than moneys on deposit in the Debt Service Account, such 2007 Series A Bonds may be credited against any future sinking fund installment established for the 2007 Series A Bonds as specified by the City at any time, except as described in the penultimate paragraph under "2007 Series A Bank Bonds" above.

Selection of 2007 Series A Bonds to be Redeemed

Except as described in the following sentence, in the event that less than all of the 2007 Series A Bonds are to be redeemed, the 2007 Series A Bonds to be redeemed will be selected in such manner as the Trustee deems fair and appropriate and the portion of such 2007 Series A Bonds not so redeemed will be in an Authorized Denomination. Notwithstanding the foregoing, in the event of any redemption of less than all of the 2007 Series A Bonds, 2007 Series A Bank Bonds will be redeemed first, prior to the selection of any other 2007 Series A Bonds for redemption.

So long as a book-entry system is used for determining ownership of the 2007 Series A Bonds, the Trustee shall send the notice of redemption to DTC or its nominee, or its successor, and if less than all of the 2007 Series A Bonds are to be redeemed, DTC or its successor and Direct Participants and Indirect Participants will determine the particular ownership interests of 2007 Series A Bonds to be redeemed. Any failure of DTC or its successor or a Direct Participant or Indirect Participant to do so, or to notify a Beneficial Owner of a 2007 Series A Bond of any redemption, will not affect the sufficiency or the validity of the redemption of the 2007 Series A 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 2007 Series A 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 2007 Series A Bonds not less than fifteen (15) days prior to the redemption date. Notice of redemption will be given by first-class mail to each holder of the 2007 Series A 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 2007 Series A Bond will not affect the validity of the proceedings for the redemption of any other 2007 Series A 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 2007 Series A 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 2007 Series A Bonds, the Trustee shall send the notice of redemption to DTC or its nominee, or its successor, and if less than all of the 2007 Series A Bonds are to be redeemed, DTC or its successor and Direct Participants and Indirect Participants will determine the particular ownership interests of 2007 Series A Bonds to be redeemed. Any failure of DTC or its successor or a Direct Participant or Indirect Participant to do so, or to notify a Beneficial Owner of a 2007 Series A Bond of any redemption, will not affect the sufficiency or the validity of the redemption of the 2007 Series A 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 2007 Series A Bonds, or that they will do so on a timely basis.

Substitution of Liquidity Facilities

At any time prior to the giving by the Tender Agent of notice of the mandatory tender of the 2007 Series A Bonds as a result of the expiration of the Liquidity Facility then in effect (see “Mandatory Tender for Purchase – *Expiration of Liquidity Facility*” above), the City may deliver to the Tender Agent a Substitute Liquidity Facility in substitution for the Liquidity Facility then in effect. In the event of any such substitution, 2007 Series A Bonds in the Daily Mode or the Weekly Mode will be subject to mandatory tender for purchase on the Substitution Date unless the City shall have delivered to the Notice Parties, by not later than the Business Day prior to the date on which the Tender Agent is required to give notice of such mandatory tender pursuant to the Eighteenth Supplemental Resolution, written evidence from each Rating Agency then rating the 2007 Series A Bonds to the effect that such Rating Agency has reviewed the proposed Substitute Liquidity Facility and that the substitution of such Substitute Liquidity Facility for the Liquidity Facility then in effect will not result in a withdrawal, suspension or reduction in such Rating Agency’s ratings on the 2007 Series A Bonds. See “Mandatory Tender for Purchase – *Substitution of Liquidity Facility*” above.

A Substitute Liquidity Facility supporting the 2007 Series A Bonds shall be in an amount at least equal to the Liquidity Facility Requirement for the 2007 Series A Bonds. Any Substitute Liquidity Facility shall become effective with respect to the 2007 Series A Bonds on the Substitution Date therefor established pursuant to the Eighteenth Supplemental Resolution (see the definition of “Substitution Date”

in APPENDIX D hereto); *provided, however*, that the City furnishes to the Tender Agent (i) an opinion of counsel of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that the substitution of such Substitute Liquidity Facility for the Liquidity Facility then in effect is authorized or permitted by the Resolution and will not cause the interest on the 2007 Series A Bonds to become includable in gross income for federal income tax purposes; (ii) either (A) written evidence from each Rating Agency then rating the 2007 Series A Bonds to the effect that such Rating Agency has reviewed the proposed Substitute Liquidity Facility and stating the ratings of the 2007 Series A Bonds after substitution of such Substitute Liquidity Facility or (B) a statement of an authorized officer of the City that no ratings have been obtained; (iii) if such Substitute Liquidity Facility is other than a letter of credit issued by a domestic commercial bank, an opinion of counsel to the effect that no registration of the 2007 Series A Bonds or such Substitute Liquidity Facility is required under the Securities Act of 1933, as amended; (iv) an opinion of counsel satisfactory to an authorized officer of the City to the effect that such Substitute Liquidity Facility is a valid and enforceable obligation of the issuer or provider thereof; and (v) all information required to give the notice of mandatory tender for purchase of the 2007 Series A Bonds, if required by the Eighteenth Supplemental Resolution.

In the event that the 2007 Series A Bonds are in the Daily Mode or the Weekly Mode, if, in connection with the substitution of a Substitute Liquidity Facility for the Liquidity Facility then in effect, the 2007 Series A Bonds are not subject to mandatory tender for purchase on a Substitution Date (see “Mandatory Tender for Purchase – *Substitution of Liquidity Facility*” above), the Tender Agent will give notice as hereinafter described to the Holders of such 2007 Series A Bonds by mail, first-class postage prepaid, not less than fifteen (15) and not more than 60 days preceding such Substitution Date. Such notice will (a) state the Substitution Date on which such substitution is expected to become effective; (b) contain a description of such Substitute Liquidity Facility and the Bank that is the issuer or provider thereof; and (c) state that if any Holder of a 2007 Series A Bond (or, if the 2007 Series A Bonds are subject to the book-entry only system of registration and transfer described in “Book-Entry Only System” below, any Beneficial Owner thereof) does not desire to continue to hold such 2007 Series A Bond (or beneficial ownership interest therein) following such substitution, such Holder (or Beneficial Owner) must give notice of the tender of such 2007 Series A Bond (or beneficial ownership interest therein) by the time and in the manner described under the caption “Optional Tender for Purchase” above.

Registration and Transfer; Payment

The 2007 Series A 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 2007 Series A Bonds (a) for a period beginning with the applicable Record Date and ending with the next succeeding Interest Payment Date, or (b) for a period beginning with a date selected by the Trustee not more than 15 nor less than 10 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 2007 Series A Bonds will be paid to the person in whose name such Bond is registered on the applicable Record Date. At such time, if any, as the 2007 Series A 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 2007 Series A Bonds will be payable by check or draft of the Trustee, as Paying Agent, mailed to the registered owners by first-class mail (or, to the extent permitted by the Resolution, by wire transfer (see “General” above)). At such time, if any, as the 2007 Series A Bonds no longer shall be subject to such book-entry only system of registration and transfer, the principal of all 2007 Series A 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 2007 Series A 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 2007 Series A Bonds is the responsibility of the Direct Participants or the Indirect Participants.

Book-Entry Only System

The 2007 Series A Bonds will be available only in book entry form. DTC will act as the initial securities depository for the 2007 Series A Bonds. The 2007 Series A 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 in the aggregate principal amount of the 2007 Series A Bonds, 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 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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.

Purchases of 2007 Series A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2007 Series A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2007 Series A 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 2007 Series A 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 2007 Series A Bonds, except in the event that use of the book-entry system for the 2007 Series A Bonds is discontinued.

SO LONG AS CEDE & CO. (OR ANY OTHER NOMINEE REQUESTED BY DTC) IS THE REGISTERED OWNER OF THE 2007 SERIES A BONDS AS NOMINEE FOR DTC, REFERENCES HEREIN TO THE HOLDERS OR REGISTERED OWNERS OR OWNERS OF THE 2007 SERIES A BONDS SHALL MEAN CEDE & CO. (OR SUCH OTHER NOMINEE), AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS.

To facilitate subsequent transfers, all 2007 Series A 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 2007 Series A 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 2007 Series A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

The City, the Trustee, the Bond Registrar, the Paying Agent and, except as expressly provided in the Eighteenth Supplemental Resolution, the Tender Agent may treat DTC (or its nominee) as the sole and exclusive owner of the 2007 Series A Bonds registered in its name for the purpose of: payment of the principal or redemption price of or interest on the 2007 Series A Bonds; selecting 2007 Series A 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 or mandatory tender for purchase; registering the transfer of 2007 Series A 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, the Underwriter (other than in its capacity, if any, as a Direct Participant or an Indirect Participant), the Remarketing Agent (other than in its capacity, if any, as a Direct Participant or an Indirect Participant) and, except as expressly provided in the Eighteenth Supplemental Resolution, the Tender Agent shall not have any responsibility or obligation to any Direct Participant, any person claiming a beneficial ownership interest in the 2007 Series A 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 2007 Series A 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 2007 Series A 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 or mandatory tender for purchase; 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 2007 Series A Bonds; or any consent given or other action taken by DTC as a Holder of the 2007 Series A Bonds.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2007 Series A 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 2007 Series A 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 2007 Series A 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 2007 Series A Bonds must make arrangements with the Direct Participant or Indirect Participant through whom such Beneficial Owner's ownership interest in the 2007 Series A 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 UNDERWRITER (OTHER THAN IN ITS CAPACITY, IF ANY, AS A DIRECT PARTICIPANT OR AN INDIRECT PARTICIPANT) NOR THE TENDER AGENT NOR THE REMARKETING AGENT (OTHER THAN IN ITS CAPACITY, IF ANY, AS A DIRECT PARTICIPANT OR AN INDIRECT PARTICIPANT) 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 2007 SERIES A 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 2007 Series A 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 2007 Series A Bonds, the City, the Trustee or the Tender Agent, as applicable, will give or cause to be given any notice of redemption or mandatory tender for purchase or any other notices required to be given to Holders of 2007 Series A 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 2007 Series A Bonds called for such redemption, of the mandatory tender for purchase of such 2007 Series A Bonds, 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 2007 Series A Bonds may wish

to take certain steps to augment the transmission to them of notices of significant events with respect to the 2007 Series A Bonds such as redemptions, tenders, defaults, and proposed amendments to the Resolution. For example, Beneficial Owners of the 2007 Series A Bonds may wish to ascertain that the nominee holding the 2007 Series A 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 2007 Series A Bonds, redemption notices and notices of mandatory tenders for purchase shall be sent only to DTC. If less than all of the 2007 Series A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such 2007 Series A Bonds to be redeemed.

NEITHER THE CITY NOR THE TRUSTEE NOR THE BOND REGISTRAR NOR THE PAYING AGENT NOR THE TENDER AGENT NOR THE UNDERWRITER (OTHER THAN IN ITS CAPACITY, IF ANY, AS A DIRECT PARTICIPANT OR AN INDIRECT PARTICIPANT) 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.

Tender of 2007 Series A Bonds Under Book-Entry-Only System. If a Beneficial Owner elects to tender all or a portion (in an Authorized Denomination) of its beneficial ownership interest in 2007 Series A Bonds subject to the book-entry-only system for purchase as provided in the Resolution, such Beneficial Owner must make arrangements for the Direct Participant through whose DTC account such beneficial ownership interest is recorded (a) to give a timely notice of such election to tender to the Tender Agent and (b) to effect delivery of such beneficial ownership interest in the 2007 Series A Bonds on DTC's records to the Tender Agent. The requirement for physical delivery of 2007 Series A Bonds in connection with such an election to tender will be deemed satisfied only when the ownership rights in such 2007 Series A Bonds are transferred by Direct Participants on DTC's records.

The Resolution provides that, notwithstanding any provision therein to the contrary, so long as 2007 Series A Bonds are issued in book-entry-only form as described above, every remarketing of such 2007 Series A Bonds (or portions thereof) by the Remarketing Agent therefor and all purchases and transfers of such 2007 Series A Bonds by the Tender Agent shall be conducted in accordance with the book-entry system of the securities depository therefor. Without limiting the generality of the foregoing, payment to a Beneficial Owner of the purchase price of 2007 Series A Bonds subject to the book-entry-only system tendered or deemed tendered for purchase shall be made in accordance with such system, and shall be the responsibility of the Direct Participant or Indirect Participant through whom such Beneficial Owner acts and not of DTC, the City, the Paying Agent or the Tender Agent.

Discontinuation of the Book Entry-Only System. DTC may discontinue providing its services as depository with respect to the 2007 Series A 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 2007 Series A 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 2007 Series A 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 2007 Series A Bonds. Upon the resignation of DTC or determination by the City that DTC is unable to discharge its responsibilities, the City may, within 90 days, appoint a successor depository. If no such successor is appointed or the City determines to discontinue the book-entry-only system, 2007 Series A Bond certificates will be printed and delivered. Transfers and exchanges of 2007 Series A Bonds shall thereafter be made as provided in the Resolution.

If the book entry-only system is discontinued, the persons to whom 2007 Series A 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 2007 Series A Bonds, the redemption of 2007 Series A 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 2007 Series A 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 (or, to the extent permitted by the Resolution, by wire transfer (see “General” above)), and the principal and redemption price of all 2007 Series A 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 Underwriter 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 INITIAL LIQUIDITY FACILITY

The following summarizes certain provisions of the Initial Liquidity Facility, to which reference is made for the detailed provisions thereof. Copies of the Initial Liquidity Facility may be obtained from the City or its Financial Advisor.

[to be revised as appropriate]

General

Until its Stated Termination Date (see “INTRODUCTORY STATEMENT – General” herein), liquidity support in connection with tenders for purchase of the 2007 Series A Bonds will be provided by the Bank pursuant to the Initial Liquidity Facility.

Pursuant to the Initial Liquidity Facility, the Bank will agree, subject to the receipt of specified notices and the absence of certain “events of default” on the part of the City under the Initial Liquidity Facility, to purchase, for its own account or for the account of a nominee, any 2007 Series A Bonds that are tendered or deemed tendered for purchase and not remarketed (hereinafter referred to as “Tendered Bonds”), at the Purchase Price therefor. Funds provided by the Bank for such purpose are required to be deposited on the Purchase Date into the 2007 Series A Bond Liquidity Proceeds Account in the 2007 Series A Bond Purchase Fund held by the Tender Agent, and are to be applied, on such Purchase Date, to the purchase, for the account of the Bank (or such nominee), of such Tendered Bonds. The “events of default” that permit the Bank not to purchase Tendered Bonds under the Initial Liquidity Facility are described in clauses (d), (f), (g), (i) and (j) under “Events of Default” below.

The commitment of the Bank to purchase 2007 Series A Bonds will terminate on the Stated Termination Date of the Initial Liquidity Facility; *provided, however*, that the Bank’s commitment will be immediately terminated upon the occurrence of certain “events of default” on the part of the City under the Initial Liquidity Facility as described in the first paragraph under “Remedies of the Bank” below.

Events of Default

Each of the following events will constitute an “Event of Default” under the Initial Liquidity Facility:

(a) the City shall fail to pay when due any fees or any other amount payable under the Initial Liquidity Facility;

(b) the City shall fail to observe or perform any covenant or agreement contained in the Initial Liquidity Facility, other than those covered by clause (a) above, or in the Resolution, the Tender Agency Agreement and the 2007 Series A Bonds (such documents being hereinafter referred to collectively as the "Financing Documents") for 45 days after written notice thereof has been given to the City by the Bank;

(c) any representation, warranty, certification or statement made by the City (or incorporated by reference) in the Initial Liquidity Facility or any Financing Document or in any certificate, financial statement or other document delivered pursuant to the Initial Liquidity Facility or any Financing Document shall prove to have been incorrect in any material respect when made (or deemed made);

(d) the City shall fail to make any payment in respect of any Bonds (other than any 2007 Series A Bank Bonds the principal of which has become payable as described in the second paragraph under "Remedies of the Bank" below) when due or within any applicable grace period;

(e) any event or condition shall occur which (i) results in the acceleration of the maturity of any Bond or any of the City's other Indebtedness (as defined in APPENDIX D hereto) relating to the System or (ii) enables (or, with the giving of notice or lapse of time or both, would enable) the holder of such Bond or Indebtedness or any person acting on such holder's behalf to accelerate the maturity thereof, in either such case, other than any event or condition that entitles the Bank to tender 2007 Series A Bank Bonds to the City for payment as described in the second paragraph under "Remedies of the Bank" below;

(f) the City shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any action to authorize any of the foregoing;

(g) an involuntary case or other proceeding shall be commenced against the City seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 90 days; or an order for relief shall be entered against the City under the federal bankruptcy laws or applicable state law as now or hereafter in effect;

(h) a judgment or order for the payment of money in excess of \$25,000,000 shall be rendered against the City with respect to the System and such judgment or order shall continue unsatisfied and unstayed for a period of 60 days;

(i) any material provision of the Initial Liquidity Facility or any Financing Document related to the payment of principal of or interest on the 2007 Series A Bonds shall at any time cease to be valid and binding on the City, or shall be declared to be null and void, in either such

case, as a result of a final, non-appealable judgment of a court of competent jurisdiction, or the validity or enforceability thereof shall be contested by the City; or

(j) the long-term portion of the ratings of the 2007 Series A Bonds (without taking into account third-party credit enhancement) are withdrawn or suspended or reduced below “Baa3” by Moody’s and “BBB-” by S&P for credit-related reasons.

Remedies of the Bank

Upon the occurrence and continuance of an Event of Default described in clause (d), clause (f), clause (g), clause (i) or clause (j) under “Events of Default” above, without any notice to the City, the Remarketing Agent or the Tender Agent or any other act by the Bank, the commitment of the Bank to purchase Tendered Bonds under the Initial Liquidity Facility will thereupon terminate.

Upon the occurrence and continuance of any Event of Default described under “Events of Default” above, the Bank may, at its option, elect to terminate its commitment to purchase Tendered Bonds under the Initial Liquidity Facility, by giving written notice to the City, the Remarketing Agent and the Tender Agent to the effect that an Event of Default on the part of the City has occurred and is continuing under the Initial Liquidity Facility, and directing the Tender Agent to make a request for funding under the Initial Liquidity Facility to effect a mandatory tender of all of the 2007 Series A Bonds; *provided, however*, that such termination will not become effective unless, prior to the date of such termination, the Bank has purchased all 2007 Series A Bonds on the Purchase Date that occurs on the fifteenth (15th) day (or, if such day is not a Business Day, the next preceding Business Day) following receipt of such notice from the Bank by the City, the Remarketing Agent and the Tender Agent, in which case, such termination will become effective on the twentieth (20th) day (or, if such day is not a Business Day, the next preceding Business Day) following receipt of such notice from the Bank by the City, the Remarketing Agent, and the Tender Agent. See “THE 2007 SERIES A BONDS – Mandatory Tender for Purchase – *Liquidity Facility Default*” herein.

Upon the occurrence and continuance of any Event of Default described under “Events of Default” above, the Bank may, at its option, by notice to the City, tender any or all 2007 Series A Bank Bonds for payment to the City and the City will thereupon be obligated to pay immediately the outstanding principal amount of each 2007 Series A Bank Bond (together with accrued interest thereon) so tendered, without presentment, demand, protest or other notice of any kind, all of which are waived by the City; *provided, however*, that in the case of any of the Events of Default specified in clause (d), clause (f), clause (g), clause (i) or clause (j) under “Events of Default” above, without any notice to the City or any other act by the Bank, all 2007 Series A Bank Bonds will immediately be deemed to be tendered for payment to the City and the City will be obligated to pay immediately the outstanding principal amount of such 2007 Series A Bank Bonds (together with accrued interest thereon) without presentment, demand, protest or notice of any kind, all of which are waived by the City.

In addition, upon the occurrence and continuance of any Event of Default described under “Events of Default” above, the Bank will be entitled to exercise any other remedies available to it at law or in equity, including, without limitation, the remedy of specific performance.

THE BANK

The information relating to the Bank set forth below has been furnished by the Bank for inclusion in this Official Statement. No representation is made herein by the City or the Underwriter as to the accuracy 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. Neither the City nor the Underwriter has made any independent investigation of the Bank.

State Street Bank and Trust Company (the “Bank”) is a wholly-owned subsidiary of State Street Corporation (the “Corporation”). The Corporation (NYSE: STT) is a leading specialist in providing institutional investors with investment servicing, investment management and investment research and trading. With \$10.1 trillion in assets under custody and \$1.4 trillion in assets under management, the Corporation operates in 26 countries and more than 100 markets worldwide. The assets of the Bank at December 31, 2005 accounted for approximately 90% of the consolidated assets of the Corporation. At December 31, 2005, the Corporation had total assets of \$98 billion, total deposits (including deposits in foreign offices) of \$59.6 billion, total loans and lease finance assets net of unearned income, allowance and reserve for possible credit losses of approximately \$6.5 billion and total equity capital of \$6.4 billion.

The Bank’s Consolidated Reports of Condition for Insured Commercial and State Chartered Savings Banks FFIEC 031 for December 31, 2005, as submitted to the Federal Reserve Bank of Boston, are incorporated by reference in this caption and shall be deemed to be a part hereof.

In addition, all reports filed by the Bank pursuant to 12 U.S.C. §324 after the date of this Official Statement shall be deemed to be incorporated herein by reference and shall be deemed to be a part hereof from the date of filing of any such report.

Additional information, including financial information relating to the Corporation and the Bank is set forth in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2005. The annual report can be found on the Corporation’s web site, www.statestreet.com. Such report and all reports filed by the Corporation pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this Official Statement are incorporated herein by reference and shall be deemed a part hereof from the date of filing of any such report. The Initial Liquidity Facility is an obligation of the Bank and not of the Corporation.

Any statement contained in any document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Bank hereby undertakes to provide, without charge to each person to whom a copy of this Official Statement has been delivered, on the written request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Official Statement by reference, other than exhibits to such documents. Written requests for such copies should be directed to Investor Relations, State Street Corporation, One Lincoln Street, Boston, Massachusetts 02111, telephone number 617-786-3000.

Neither the Bank nor its affiliates make any representation as to the contents of this Official Statement (except as to this caption to the extent it relates to the Bank), the suitability of the 2007 Series A Bonds for any investor, the feasibility or performance of any project or compliance with any securities or tax laws or regulations.

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 2005 population of 240,764 in the Gainesville Metropolitan Statistical Area. As of April 2006, an estimated 120,919 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 2006 enrollment at the University of Florida was approximately 50,785 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:

	<u>Term Expires</u>
Mayor Pegeen Hanrahan, At-large.....	May 2007
Commissioner Stuart Craig Lowe, District 4, Mayor Pro-Tem	May 2007
Commissioner Edward B. Braddy, District 2.....	May 2008
Commissioner Richard J. Bryant, At-large	May 2008
Commissioner John F. Donovan, District 3	May 2008
Commissioner Scherwin L. Henry, District 1	May 2009
Commissioner Jeanna Mastrodicasa, At-large	May 2009

The City Commission appoints a General Manager for Utilities who is responsible for the overall administration of the utilities system. In March 2006, the General Manager for Utilities resigned his position. At that time, Karen S. Johnson was appointed Interim General Manager for Utilities. The City Commission currently is conducting a nationwide search to fill the position of General Manager for Utilities.

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”). 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 88,664 customers in the fiscal year ended September 30, 2006 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 32,522 customers in the fiscal year ended September 30, 2006.

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 66,479 and 59,206 customers, respectively, in the fiscal year ended September 30, 2006. 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

Ms. Karen S. Johnson, Interim General Manager for Utilities, was appointed Interim General Manager in March 2006. Previously, Ms. Johnson served as Assistant General Manager-Customer and Administrative Services since September 1991. Ms. Johnson served as Interim City Manager for the City from March 1994 through July 1995 and formerly served as the Assistant City Manager for the City prior to her appointment as Assistant General Manager-Customer and Administrative Services.

In addition to the General Manager for Utilities, the System's executive team includes five Assistant General Managers, the Chief Financial Officer, the Utilities Attorney, and the Marketing and Communications Director. The five Assistant General Managers consist of: Customer and Administrative Services; Energy Supply; Energy Delivery; Water and Wastewater Systems; and Strategic Planning. As a result of Ms. Johnson's appointment as Interim General Manager, the position of Assistant General Manager-Customer and Administrative Services currently is vacant. The following paragraphs describe the other members of the System's executive team and their backgrounds:

Mr. George K. Allen, Assistant General Manager-Energy Supply, was appointed in November 2004. Mr. Allen was previously the General Manager of Indiantown Cogeneration L.P. and employed by PG&E National Energy Group. Mr. Allen oversees the construction, operation and maintenance of the System's electric generating plants and is responsible for power engineering and fuels management.

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.

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.

Ms. Jennifer L. Hunt, CPA, Utilities Chief Financial Officer, 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 The Energy Authority, Inc. ("TEA").

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, industrial and systems engineering, and environmental planning and compliance. Mr. Regan also represents the System on the Settlement and Operations Committee of TEA and on the Board of Directors of the Florida Municipal Electric Authority.

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.

Ms. Kathy E. Viehe, Marketing and Communications Director, was appointed in January 2001. 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 the planning and operations of the telecommunications system.

Mr. Albert E. White, M. Ag., Community Relations Director, joined the System in 1973 and served as a Plant Manager for Water Reclamation Facilities. After a five-year stint with the Gainesville Area Chamber of Commerce as Vice President for Public Affairs and Business Development, he was appointed to his current position in 1999. Mr. White is responsible for community outreach and building positive working relationships with community and neighborhood-based organizations, customer groups, and other public agencies. He also acts as the System's ambassador to the community.

Labor Relations

The System presently employs approximately 835 persons. All personnel are City employees and are solely under the management of the City. Florida law prohibits public employees from striking.

Approximately 597 of the System's employees are represented by Local No. 3170 of the Communications Workers of America (the "Communications Workers"). The City's collective bargaining agreement with the Communications Workers expires on December 31, 2009. Currently, there are no outstanding charges of unfair labor practices filed by the Communications Workers against the City with the Florida Public Employees Relations Commission. Management of the System believes that the City's labor relations with respect to the System are excellent.

Permits, Licenses and Approvals

Management of the System believes that all principal permits, licenses and approvals required to construct and operate the System's facilities have been acquired. Management of the System 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 three wholesale customers, Seminole Electric Cooperative, Inc. ("Seminole"), Alachua and Florida Municipal Power Agency ("FMPA"). See "Energy Sales – Retail and Wholesale Sales" below. The electric facilities of the System currently serve approximately 124 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 and sales. The following tabulation shows the average number of electric customers for the fiscal years ended September 30, 2002 through 2006.

	Fiscal Years ended September 30,				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Retail Customers (Average):					
Residential	73,522	74,164	76,435	77,918	79,125
Commercial and Industrial.....	<u>8,754</u>	<u>8,912</u>	<u>9,203</u>	<u>9,342</u>	<u>9,538</u>
Total	<u>82,276</u>	<u>83,076</u>	<u>85,638</u>	<u>87,260</u>	<u>88,663</u>

Of the 88,663 customers in the fiscal year ended September 30, 2006, the 9,538 commercial and industrial customers provided approximately 44% of revenues from retail energy sales. The ten largest retail users of electric energy of the System in the fiscal year ended September 30, 2006 (excluding general government functions of the City), in total, represented only 6.2% of retail energy sales revenues and only 5.8% of all energy sales revenues. The single largest retail customer represents only 1.4% of total revenue.

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. In July 2006, TEA acquired the assets and business of Power Resource Managers, LLP (“PRM”), a public power resource management, trading, and risk management organization headquartered in Seattle, Washington. This acquisition is the first major step in TEA’s expansion to provide services to public power organizations in the West. Giving effect to the acquisition of the assets and business of PRM, the total capacity owned by TEA equity members and resource management partners is 18,700 MW, including power contracts, and the total resources managed by TEA is approximately 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 the real-time, day-ahead, and longer-term power markets. TEA also purchases all 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, 2006, 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, 2006, the System sold 2,057,715 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 6.7% per year from the fiscal year ended September 30, 2002 through the fiscal year ended September 30, 2006. 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 and average use of electricity, in MWh, by customer class, for the fiscal years ended September 30, 2002 through 2006.

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 71,358 MWh to Seminole in the fiscal year ended September 30, 2006 and collected \$5,317,048 in revenues from those sales, which represents approximately 3.47% of total energy sales (excluding interchange sales) and 3.1% of total sales revenues. The System has had a wholesale contract with Alachua since 1988, which has been extended through December 2008. The contract includes management of Alachua’s 600 kilowatts (“kW”) share of CR-3 and its 300 kW share of the St. Lucie No. 1 and 2 nuclear units. During the fiscal year ended September 30, 2006, the System sold 103,590 MWh to Alachua and received \$8,293,915 in revenues from those sales, which represents approximately 5.03% of total energy sales (excluding interchange sales) and 4.9% of total sales revenues. Despite trends of continuous growth, firm wholesale sales in the fiscal year ended September 30, 2004 were lower than the preceding year largely due to Seminole’s upgrade of the substation at which receipt of power from the System is taken. Seminole’s distribution system was reconfigured to provide service from elsewhere during the upgrade, resulting in lower System sales. The substation has been returned to full service, and the trend of continued growth has resumed.

Retail and Wholesale Energy Sales

	Fiscal Years ended September 30,				
	2002	2003	2004	2005	2006
Energy Sales–MWh:					
Residential.....	807,593	866,080	873,612	875,304	901,437
General Service, Large Power and Other	903,300	931,859	950,797	956,987	981,330
Firm Wholesale	<u>135,675</u>	<u>148,827</u>	<u>143,896</u>	<u>161,264</u>	<u>174,948</u>
Total.....	<u>1,846,568</u>	<u>1,946,766</u>	<u>1,968,305</u>	<u>1,993,555</u>	<u>2,057,715</u>
Average Annual Use per Customer–kWh:					
Residential.....	10,984	11,678	11,429	11,234	11,393
General Service, Large Power and Other	103,187	104,562	103,325	102,439	102,884

Interchange and Economy Wholesale Sales and Purchases

Interchange and economy wholesale purchases are among the factors that allow the System to assure competitive power costs for retail and firm wholesale customers. One major factor is the System’s low cost coal-fired baseload capacity, which is a substantially greater percentage than average in the Florida market. Off-system purchases, made through TEA, are another major factor. These purchases made through TEA help assure that incremental power costs are either below or at real-time market costs. For example, whenever TEA can find an opportunity to purchase and deliver power for a lower price than the cost to produce it, the System will take advantage of that opportunity. The benefits of the System’s purchases are passed on to retail and firm wholesale customers through their effect on the fuel adjustment portion of their rates. In the year ended September 30, 2006, 14.8% of power for retail and wholesale sales were obtained through off-system purchases. Low cost coal capacity and incremental production at or below market prices, combined with the System’s relatively low generation debt load, yield competitive power costs for retail and wholesale customers.

The System also realizes net revenues from non-firm and/or short-term power sales through TEA. However, as the System’s native load increases, the opportunities to make such non- firm and/or short-term power sales may become more limited and less economical, although any resource shortfall of another utility may provide additional opportunities for such sales. The System experienced an increase in sales of non-firm and/or short-term power between 2005 and 2006, which was attributable to such

resource shortfalls of other utilities. The following table sets forth historical net revenues from interchange and economy sales.

Net Revenues from Interchange and Economy Sales⁽¹⁾
(Fiscal Years ended September 30)
(dollars in thousands)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Net Revenues	\$5,276	\$2,039	\$766	\$515	\$780
Percent of Total Electric System Net Revenues	9.0%	3.8%	1.5%	1.1%	1.6%

(1) Variable in nature due to regional capacity availability, weather effects on demand and fuel price volatility.

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 5% 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.

DSM programs available, or expected to be implemented during fiscal year 2007, to the System’s residential customers include: energy audits; low income household weatherization; air conditioning sizing calculations; promotion of high efficiency central air conditioning; promotion of high efficiency room air conditioning; promotion of central air conditioner maintenance; promotion of heat recovery for water heating; promotion of heat pipe enhanced air conditioning; promotion of reflective roof coating for mobile homes; promotion of solar water heating; promotion of natural gas in new construction; promotion of the Energy Star building practices of the United States Environmental Protection Agency (“EPA”); promotion of Green Building practices in multi-family dwellings; promotion of duct repair; promotion of photovoltaic power production; promotion of energy efficiency for low-income households; promotion of proper insulation; promotion of removing second refrigerators from homes; promotion of compact fluorescent light bulbs; promotion of energy efficiency low-interest loans; and promotion of natural gas for displacement of electric water heating, space heating and space cooling in existing structures. DSM programs available to the System’s non-residential customers include: energy audits; lighting efficiency and maintenance services; promotion of high efficiency central air conditioning; promotion of high efficiency room air conditioning; promotion of solar water heating; promotion of natural gas for water heating, space heating and dehumidification; and promotion of 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 photovoltaic (“PV”) systems with less than 10 kW of capacity.

The System continues to monitor the potential for additional conservation efforts including programs addressing duct leakage, thermal storage, district chilled water cooling, window shading and the energy efficiency of low-income households. In April 2006, the City Commission provided direction to System staff to maximize DSM opportunities. Increased funding for conservation is included in the System’s budget for the fiscal year ending September 30, 2007. Staff has been reviewing the efforts of conservation leaders in the industry, and the Interim General Manager and several Commissioners led fact

finding trips to California, Texas, Vermont, and New York to maximize these efforts. A duct leakage repair program was implemented in 2006. DSM program implementations are estimated to have provided 24.1 MW of summer peak reduction cumulative, 48.9 MW of winter peak reduction since 1980 and 119,617 MWh in annual energy savings through the year 2006. The System plans to continue and expand its DSM programs as a way to cost-effectively meet customer needs and hedge against potential future carbon tax and trade programs. See “Green Power” and “Future Power Supply” below.

Green Power

The System’s retail customers are environmentally aware and are interested in supporting renewable energy technologies. In October 1993, the System initiated Florida’s first “green power” sales program, providing customers with the opportunity to support renewable energy through contributions made on their electric bill. The “green power” has evolved into what is today marketed and sold as “GRUGreen™”. Participants of this program help fund the continued expansion of the System’s renewable energy portfolio, through a two cent per kilowatt hour (“kWh”) contribution. During the 12-month period ended September 30, 2006, 516 customers chose to participate in GRUGreen resulting in revenue of \$66,329.12. This portfolio includes: a solar PV demonstration project installed on the System’s Energy Control Center (10 kW), two demonstration PV systems installed at local middle schools to aid their science curriculum and provide teacher training (1.7 kW each); a “landfill gas to energy” generating station (2.3 MW installed capacity); and “green tags” purchased from wind energy generation facilities in the Midwest.

In addition to providing customers with choices, 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.

Energy Supply System

Generating Stations

The System owns and operates generating facilities that have a net summer system capability of 611 MW that provided a reserve margin of 32% in the year ended September 30, 2006. The System’s two main generating stations are the John R. Kelly and Deerhaven Station plant sites. The System also owns a small share of CR-3 and a “landfill gas to energy” facility located adjacent to a closed landfill in southwest Alachua County. These facilities are connected to the Florida grid and to the System’s service area over 138 kV and 230 kV transmission facilities that include three interconnections with PEF and one interconnection with FPL. Energy from the landfill gas facility is first wheeled over PEF’s distribution system.

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

Existing Generating Facilities

<u>Plant Name</u>	<u>Unit No.</u>	<u>Fuels</u>		<u>Net Summer Capability (MW)</u>
		<u>Primary</u>	<u>Alternative</u>	
J.R. Kelly	Steam Unit 8	Waste Heat	-	37.00
	Steam Unit 7	Natural Gas	Residual Fuel Oil	23.00
	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>
				177.00
Deerhaven	Steam Unit 2	Bituminous Coal	-	228.00
	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	18.00
	Combustion Turbine 1	Natural Gas	Distillate Fuel Oil	<u>18.00</u>
				422.00
Crystal River	Nuclear Steam Unit 3	Uranium	-	<u>11.00</u>
				11.00
SW Landfill	SW-1	Landfill Gas	-	0.65
	SW-2	Landfill Gas	-	<u>0.65</u>
				<u>1.30</u>
System Total				<u>611.30</u>

John R. Kelly – The John R. Kelly Station (“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 John R. Kelly Unit 8 with a heat recovery steam generator utilizing waste heat from a new GE 7EA combustion turbine. All of the Kelly 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 storm water 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 site. The Deerhaven Station consists of two steam turbines and three combustion turbines with a net summer capability of 422 MW. Deerhaven Unit 1 (“Deerhaven 1”) is a steam unit equipped for oil/gas firing with a net summer capability of 83 MW. Deerhaven 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 228 MW. Deerhaven 2 utilizes low-sulfur coal in combination with electrostatic precipitators 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 70% in recent years). For the five fiscal years ended September 30, 2006,

Deerhaven 2 maintained an average operating availability of 82.39% (79.91% in the fiscal year ended September 30, 2006). Operating availability represents the percentage of time the unit was available to serve load at any output level. Deerhaven 2 will require additional emission control equipment to meet the EPA's Clear Air Interstate Rule ("CAIR") and the Clean Air Mercury Rule ("CAMR") the cost of which is included in the System's capital improvement program. This equipment will consist of selective catalytic reduction to reduce nitrogen oxides ("NO_x"), also scheduled to come on-line May 1, 2009, and a dry scrubber and baghouse air filter to control sulfur dioxide ("SO₂") and mercury, scheduled to come on-line by May 1, 2009. There are also three quick start combustion turbines on the Deerhaven site. Two combustion turbines are rated at 18 MW each; with a third combustion turbine rated with a net summer capability of 75 MW and equipped with dry low NO_x combustors and water injection for NO_x control. Each of these turbines is capable of firing on natural gas or distillate fuel oil. See "FACTORS AFFECTING THE UTILITY INDUSTRY – Air Emissions" herein for a more detailed discussion of the 1990 Amendments to the Clean Air Act (the "1990 Amendments"), CAIR and CAMR and their impact on the Deerhaven Station.

On June 4, 2006, as a result of an inadvertent overfilling of a bulk storage tank at the Deerhaven Station, an estimated 23,000 gallons of No. 6 fuel oil was released into the (tank) containment area. Approximately 14,000 gallons of the oil was recovered and put back into storage with the balance of the oil not immediately recovered. Some of the release was conveyed into the storm water drainage system; no oil left the plant site. Cleanup was completed in June 2006. Both site cleanup and regulatory financial requirements have been satisfied. Training and corrective actions toward future mitigation as well as site restoration are on-going. These efforts are in conjunction with Florida Department of Environmental Protection ("FDEP") oversight.

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, approximately 55 miles southwest of Gainesville. The System owns a 1.4079% ownership share of CR-3 equal to 11,800 kW (11,280 kW delivered to the System). 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 69.2% through the fiscal year ended September 30, 2006. For the past three and a half years, CR-3 has maintained an average capacity factor of 92.6%. 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 20 years. 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. See "FACTORS AFFECTING THE UTILITY INDUSTRY – Nuclear Waste Disposal Regulation" and "INSURANCE" herein for a discussion of certain other matters relating to CR-3.

Fuel Supply

The objectives of the System 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 or spot suppliers, (3) optimizing the quality of fuel and market price to achieve environmental compliance in the most effective and competitive manner possible, (4) reducing 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, 2006, the

System's fuel mix was as follows: coal 69.6%; natural gas 23.5%; nuclear 4.5%; and oil 2.4%, 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 106-car set of aluminum rapid rail cars that are in continuous operation between Deerhaven and the coal fields. In 1997, the System constructed a facility at the Deerhaven Station to allow the System to perform on-site coal car maintenance. Coal inventory at the Deerhaven Station is maintained at approximately 50-60 days 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 and insulate customers from short-term price swings, and exert better control over the quality of coal delivered to Deerhaven power plant. 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 production capacity. The System's baseload coal supply agreement is with Massey Coal Sales Co. ("Massey"), the largest coal producer in the Central Appalachia supply region. The contract provides a volume of 401,000 tons annually through December 2008. The coal volume under the Massey agreement meets approximately 65% of the System's coal supply requirement for the next two years at a fixed price. The System currently has a short-term agreement with Koch Carbon for 120,000 tons of coal supply during 2007. The System will participate in the spot market for the remainder of the System's requirement in order to diversify its coal supply sources.

Natural Gas – Natural gas 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. For the fiscal year ended September 30, 2006, the System consumed 5,280,985 million British thermal units ("MMBtu's") of natural gas in electric generation and 2,235,064 MMBtu's for the distribution system. The average cost of gas delivered to the System in the fiscal year ended September 30, 2006 was \$9.10/MMBtu. The System analyzes, investigates, and participates in opportunities to hedge and reduce costs and provide greater reliability of supply and transportation for customers. These opportunities include pipeline tariff discussions and negotiations, review of potential LNG 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 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. See "Energy Sales – *The Energy Authority*" above.

On September 20, 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. The baseload purchase will account for approximately 18% of the System's natural gas requirements per year. Customers of the System are expected to realize savings averaging \$0.57 per MMBtu compared to FGT's Zone 2 price as posted in "Inside F.E.R.C." for the first of the month. The City's obligations to FGU under such purchase constitute a "Credit Obligation" within the meaning of the Resolution and, as such, are payable as Operation and Maintenance Expenses, prior to the payment of debt service on the Bonds. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Application of Revenues" in APPENDIX C hereto

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 diesel fuel. The switching between the two fuels is driven by delivered price and unit efficiency on each fuel. 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. The System currently is evaluating the potential for providing more fuel oil price stability by parallel financial hedges of natural gas and/or crude oil. For the fiscal year ended September 30, 2006, the System’s average cost for No. 6 fuel oil was \$8.287/MMBtu and for No. 2 fuel oil was \$14.392/MMBtu.

Nuclear – PEF, as operator of CR-3, has contract responsibility 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 transported and disposed of, when disposal sites 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.

Transmission System, Interconnections and Interchange Agreements

The System has a looped transmission system with sufficient interconnection capacity to import sufficient power to serve its territory under the extreme worst case planning scenario of assuming 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 is planned for the near future to take full advantage of the import capacity. The System’s transmission system circles the service area and connects 3 switching stations, 6 loop fed substations, and 3 radial fed substations with a 138 kilovolt (“kV”) loop system that provides a high degree of reliability. 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. The System also has an interconnection agreement to wheel power generated at a landfill gas site via PEF’s 12.5 kV distribution system to PEF’s Archer Substation. 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 bought or sold anywhere in Florida by transmitting (“wheeling”) power through either PEF or FPL. The System is a member of the Florida Reliability Coordinating Council, Inc. (“FRCC”). FRCC is a sub-region of the North American Electric Reliability Council (“NERC”), which consists of virtually all of the electric utilities in Peninsular Florida. As a member of FRCC, the System participates in sharing installed and spinning reserves for reliability purposes with the 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 6 loop fed substations and 3 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 system 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 system is also used

extensively in routing loads to specific circuits and planning distribution and substation system improvements. Approximately 55% of the distribution system’s circuit miles are underground, which is among the highest percentages in Florida. Additional substations are planned for 2007 and 2010 to improve reliability and flexibility in serving the growing load in the System’s territory.

The System no longer has in service in its distribution system any known electric apparatus containing substantial polychlorinated biphenyls (“PCB’s”), a hazardous substance. In fact, all known equipment has less than 50 parts per million (“ppm”) of PCB’s.

The remaining substation equipment containing 50 to 499 ppm of PCB’s are scheduled for decontamination by 2010. These 4 power transformers will be budgeted for decontamination at the rate of one transformer per year.

Capital Improvement Program

The System’s current six-year electric capital improvement program requires a total of approximately \$357,428,000 in capital expenditures between the fiscal years ending September 30, 2007 through 2012, inclusive. A breakdown of the categories included in the six-year capital improvement program is outlined below. A substantial portion of the Generation and Control items in the electric system’s capital budget (\$140,808,000) is for the purpose of making improvements to meet the requirements of the CAIR and CAMR regulations at Deerhaven 2. See “FACTORS AFFECTING THE UTILITY INDUSTRY – Air Emissions” herein.

Electric Capital Improvement Program

	Fiscal Years ending September 30,						Total ⁽¹⁾
	2007	2008	2009	2010	2011	2012	
	(dollars in thousands)						
Generation and Control	\$69,257	\$ 95,217	\$41,236	\$ 4,850	\$ 5,630	\$ 5,051	\$221,241
Transmission and Distribution.....	11,001	12,311	13,968	13,381	12,079	13,605	76,345
Miscellaneous and Contingency ...	14,934	16,784	10,818	7,305	4,964	5,037	59,842
Total	<u>\$95,192</u>	<u>\$124,312</u>	<u>\$66,022</u>	<u>\$25,536</u>	<u>\$22,673</u>	<u>\$23,693</u>	<u>\$357,428</u>

(1) The System’s current six-year electric capital improvement program does not include amounts in respect of the acquisition or construction by the System of additional generating capacity. See “Future Power Supply” below. The costs of the acquisition or construction of such additional generating capacity could be substantial.

Loads and Resources

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

Fiscal Year	Net Summer System Capability (MW) ⁽¹⁾	Firm Interchange Purchases (MW) ⁽²⁾	Firm Interchange Sales (MW)	Peak Load (MW) ⁽³⁾	Actual / Projected Planning Reserve Margin	
					MW	Percent
Historical						
1996.....	527	18	43	365	119	33
1997.....	527	30	85	373	69	19
1998.....	550	31	73	396	81	21
1999.....	550	32	110	419	53	13
2000.....	550	-	78	425	47	11
2001.....	610	-	93	409	108	26
2002.....	610	-	43	433	134	31
2003.....	610	-	3	417	190	46
2004.....	611	-	3	432	176	41
2005.....	611	-	3	465	143	31
2006.....	611	-	3	464	138	29
Projected						
2007.....	611	-	0	483	128	27
2008.....	611	-	0	495	116	23
2009.....	611	-	0	506	105	21
2010.....	608	-	0	517	91	18
2011.....	608	-	0	526	79	15

- (1) Based upon summer ratings. Deerhaven CT 3 (75 MW) was placed in service in January 1996. In 2001, Kelly Unit 7 was re-powered with Kelly 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 reduce capacity by 3 MW in 2010.
- (2) Purchase from Louisville Gas & Electric Company.
- (3) Includes Alachua and Seminole all-requirements wholesale contracts which are given the same precedence as native load.

Mutual Aid Agreement For Extended Generation Outages

The System has entered into a mutual aid agreement for extended generation outages with 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 an initial term ending in October 2007, and management of the System expects that the term of the agreement will be extended.

Future Power Supply

Forecasts of load growth indicate that additional generating resources will be needed by the City by 2013 in order to maintain a 15% generation planning reserve margin. This is later than previous studies had indicated due to the incorporation of additional direct load control and DSM into the System's integrated resource plan ("IRP") as well as 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 while meeting 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.

In anticipation of this load growth and the need to maintain a related 15% reserve margin, and in keeping with Management's strategy, the System has been performing the studies necessary to develop an IRP to meet Gainesville's long-term needs for electrical generation. These studies began in 2002, with a solid fuel feasibility study conducted jointly with FMPA, JEA, Seminole and Reedy Creek Improvement District. Studies of long-range strategies to accommodate changing air emission control regulations, DSM and energy conservation, renewable energy resources, domestic fuel production and prices, fuel transportation, and generation technologies were also performed. Generation technologies appropriate for north central Florida that were evaluated included PV electricity, solar thermal applications, integrated gasification combined cycle, combustion turbines, combined cycle units, and solid fuel boiler designs such as pulverized coal, super critical pulverized coal, and circulating fluidized bed.

The development of the IRP also involved extensive community outreach and extensive participation by a wide range of potential stakeholders in the outcome. As a result of community concerns related to climate change, and the potential for carbon taxes or carbon cap and trade programs, the System has begun to factor carbon intensity into its planning process. This includes the analysis of the carbon content of various types of fuel and the carbon offset credits available through its land management, energy conservation, and green power programs. The System's current sources of green power include landfill gas, purchased wind green tags, and locally installed demonstration PV systems. See "Green Power" above.

After careful study of the various options and available resources, in early 2005 Management of the System proposed to the City Commission an IRP comprised of DSM programs; additional solid fuel capacity able to use a mix of coal, petroleum coke, and biomass; and a greenhouse gas fund to develop local carbon offsets. The City Commission has reviewed staff's proposals and has had two separate individual consultations performed to provide additional insight, diverse perspectives, and analysis of the options considered. Numerous studies and analyses were performed to evaluate the tradeoffs between the various options available with regard to electric revenue requirements, effects on the local economy, the environmental and potential health benefits, and carbon emissions. Opportunities for participation in larger projects being developed around the State were addressed. The criteria employed to define cost-effective energy conservation and DSM were also carefully reviewed and evaluated as an important part of this process.

On April 12, 2006, the City Commission voted and gave Management of the System direction for developing the System's long-term energy supply plan, consisting of two key components. The first component is to pursue all cost-effective and feasible DSM measures including energy efficiency, demand response programs and/or load management, and incentive rate designs. The second component is to develop additional generation capacity for the balance of the System's needs to be provided as follows: (i) construction of a relatively small (100 MW or less), fuel flexible, solid fuel facility at the

Deerhaven Station plant site capable of utilizing up to 100% biomass as fuel; (ii) construction of an F-class integrated gasification combined cycle unit at the Deerhaven Station plant site of roughly 260 MW, preferably able to employ biomass as well as coal and petroleum coke; and/or (iii) participation in another unit not constructed at the Deerhaven Station plant site. Staff was instructed to issue an all-source solicitation to compare third-party offers to self-build options. The additional generation capacity could be acquired through partnerships, either in a facility at the Deerhaven Station or elsewhere. Management of the System was requested to return to the City Commission with a recommendation in six to nine months, and to include carbon intensity as an evaluation criterion.

This strategy takes advantage of the large existing Deerhaven Station plant site, including the existing rail facilities, and the System's ability to provide reclaimed water from its wastewater collection and treatment system, and does not require substantial transmission system improvements. The System's current CSX transportation contract extends through 2019, has no volume restrictions and anticipates the shipping of either coal or petroleum coke. North central Florida is the home of extensive silvicultural industries, and the estimated quantities of forest waste wood products needed for the proposal are expected to be available at prices equal to or less than coal.

The City Commission is aware that the direction they have taken is substantially more capital intensive than the best alternative based on a natural gas-fired combined cycle unit, but that a solid fuel unit is expected to more than pay for itself from fuel cost and/or purchased power savings. This strategy has other benefits as well, including the development of local forestry industries, the use of domestically produced (as opposed to imported) fuels, and being strategically positioned should carbon curtailment policies ever be enacted. The major proposals to date have treated the use of biomass as carbon neutral and embraced energy conservation and carbon sequestration as tradable offsets for emissions from combustion of fossil fuel.

After a process of meeting with a wide range of power supply developers, a non-binding Request for Letters of Interest ("RFI") for developing power supply resources was issued on September 5, 2006. The RFI expressly stated the System's willingness to consider third-party ownership and operation, the use of municipal solid waste, the use of coal or petroleum coke, and joint participation on the Deerhaven site. On December 15, 2006, 18 responses were received, representing a wide range of technologies and options. After evaluation and approval of a selected supply by the City Commission in the spring of 2007, a binding Request for Proposals ("RFP") will be issued. Factors to be considered in the evaluation include economics, fuel supply, carbon intensity, risk mitigation, and technology maturity.

Based on assumptions of the time required for permitting and construction, additional solid fuel capacity is not likely to be completed until after 2013. If projected levels of energy conservation and load management are achieved, additional reserve capacity may not be needed in the interim. If interim capacity should be required, the System expects to enter into short-term, firm capacity power supply agreements as needed to maintain adequate reserve margins to meet its obligations to FRCC.

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 systems consist 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 immediate surrounding unincorporated area. In addition, the natural gas system serves customers within the city limits of Alachua under a franchise agreement that expires on November 10, 2007, unless otherwise extended by the parties thereto. Recent discussions with Alachua indicate Alachua’s willingness to renew the franchise pending satisfactory clarification of the buy-out provision of the current franchise. The terms and conditions of the existing franchise will remain in effect upon the expiration of the agreement until such time as the new franchise is negotiated or until a satisfactory buy-out agreement is reached. In May 2006, the City of High Springs, Florida (“High Springs”) approved a franchise with the System for natural gas services. High Springs is a growing, predominantly residential community located northwest of Alachua and the City. The franchise term is 25 years. Alachua, with a population of 6,700 (2000 census) has 915 predominantly residential customers in a 28.9 square mile area, while High Springs has a population of 4,330 (2000 census) and an area of 18.45 square miles. Without regard for changes attributable to Alachua and High Springs, the area the System serves includes approximately 112 square miles and approximately 29% of the County’s total population.

Customers

The natural gas system has experienced steady growth in customers in recent years of 2.39%, compounded annually. The following tabulation shows the average number of natural gas customers for the fiscal years ended September 30, 2002 through 2006. Over 90% of new single family developments in the Gainesville urban area have been connected to the System over this period.

	Fiscal Years ended September 30,				
	2002	2003	2004	2005	2006
Customers (Average)	29,482	30,206	30,901	31,706	32,522

The composition of the System’s natural gas customers is predominantly residential. Commercial and industrial customers comprised approximately 5.0% of the 32,522 average customers served in the fiscal year ended September 30, 2006. The ten largest retail customers of the natural gas system in the fiscal year ended September 30, 2006 (excluding general government functions of the City) represented approximately 20.2% of annual gas sales revenue. The single largest retail customer of the natural gas system represented approximately 3.3% of annual gas sales revenue.

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 provides 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, 2006 was \$9.77/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 713 miles of gas distribution mains with coated steel pipe accounting for approximately 168 miles (24%) of this total. All coated steel pipelines are cathodically protected using magnesium anodes. The System has an ongoing program for the replacement of all uncoated steel pipe. To date, approximately 17.12 miles of bare steel remain in the system. The predominant material type currently deployed for new construction is polyethylene (“PE”) plastic. Approximately 521 miles of PE pipe were in service as of January 2007. The cast iron replacement program is on schedule with an estimated 7 miles of cast iron pipe remaining in the system.

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 had 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 also 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 currently is seeking final approval of its proposed overall Remedial Action Plan which will entail the excavation and thermal treatment of impacted soils. This plan will be implemented pursuant to a Brownfield Site Rehabilitation Agreement with the State of Florida. Following remediation, the property will be redeveloped by the City as a park, including storm water ponds, nature trails, and recreational space, all of which were considered in the remediation plan’s design.

The remediation costs are currently estimated at \$12 million and are 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 \$35,725,000 in capital expenditures between the fiscal years ending September 30, 2007 through 2012, 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. The table below does not take into account any capital expenditures that may result from the System’s new franchise to provide natural gas service in High Springs. See “Service Area” above.

Gas Capital Improvement Program

	Fiscal Years ending September 30,						Total
	2007	2008	2009	2010	2011	2012	
	(dollars in thousands)						
Distribution Mains	\$1,879	\$1,410	\$1,433	\$1,496	\$1,543	\$1,593	\$ 9,354
Meters, Services and Regulators	1,597	1,542	1,535	1,572	1,628	1,617	9,491
Acquisition and Clean-up	5,318	6,415	36	38	39	41	11,887
Miscellaneous and Contingency	1,710	738	670	686	590	599	4,993
Total	<u>\$10,504</u>	<u>\$10,105</u>	<u>\$3,674</u>	<u>\$3,792</u>	<u>\$3,800</u>	<u>\$3,850</u>	<u>\$35,725</u>

THE WATER SYSTEM

The water system currently includes 1,051 miles of water transmission and distribution lines throughout the Gainesville urban area, fifteen 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 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 seasonal 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, 2002 through 2006.

	Fiscal Years ended September 30,				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Customers (Average).....	60,348	61,078	62,890	64,692	66,475

Most of the System’s individual water customers are residential. Commercial and industrial customers comprised approximately 8.0% of the 66,475 average customers in the fiscal year ended September 30, 2006, and 63.5% of all water sales revenues were from residential customers. The ten largest customers of the water system in the fiscal year ended September 30, 2006 (excluding general government functions of the City) represented approximately 8.5% of annual water sales revenues. The single largest customer of the water system represented approximately 5.1% of annual water sales revenues.

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, water treatment and supply facilities are currently adequate through at least 2009. The planned construction of additional filtration capacity and another well in 2009 will provide adequate treatment and supply reserves through 2012. The ultimate build out capacity of the plant, which is 60 Mgd maximum daily flow, should be adequate through at least

2026. 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 softening to protect the distribution system and improve customer satisfaction, fluoridation for improved cavity protection in young children, 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 will be upgraded by 2009 with the addition of two additional filter cells.

Raw water requirements for the water system are supplied by fifteen 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 fifteen existing wells and will accommodate the construction of additional wells. Existing and future wells within the conservation easement are anticipated to yield 60 Mgd of water supply to match the long-term future treatment capacity of the Murphree Plant site. An additional well is planned in 2009.

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 EPA and the PRP for the site (Beazer East, Inc.) to develop remediation plans. The System has assembled a team of three experts in the groundwater contamination field to assist and advise the System, and to assist the System in interacting with 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 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 \$2.08 million in the fiscal year ended September 30, 2006 and is planning to spend an additional \$14.8 million in the fiscal years ending September 30, 2007 through 2012, 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 \$47,681,000 in capital expenditures between the fiscal years ending September 30, 2007 through 2012, 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,						Total
	2007	2008	2009	2010	2011	2012	
	(dollars in thousands)						
Plant Improvements	\$4,960	\$4,955	\$2,748	\$ 662	\$ 791	\$3,370	\$17,486
Transmission and Distribution	1,830	2,118	2,531	3,243	3,033	2,063	14,818
Miscellaneous and Contingency	3,162	2,788	2,489	2,226	2,312	2,400	15,377
Total.....	<u>\$9,952</u>	<u>\$9,861</u>	<u>\$7,768</u>	<u>\$6,131</u>	<u>\$6,136</u>	<u>\$7,833</u>	<u>\$47,681</u>

THE WASTEWATER SYSTEM

The wastewater system serves most of the Gainesville urban area and consists of 568 miles of gravity sewer collection system, 154 pump stations with 127 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 of 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 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, 2002 through 2006.

	Fiscal Years ended September 30,				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Customers (Average)	53,419	54,310	55,821	57,553	59,206

The composition of the System's wastewater customers is predominantly residential. Commercial and industrial customers comprised approximately 6.7% of the 59,206 average customers in the fiscal year ended September 30, 2006, and residential customers were the source of 71% of the wastewater system's revenues in the fiscal year ended September 30, 2006. The ten largest users of the wastewater system in the fiscal year ended September 30, 2006 (excluding general government functions of the City) represented approximately 4.8% of the revenues from wastewater billings. The single largest

customer of the wastewater system represented approximately 0.9% of annual revenues from wastewater billings.

Treatment

The wastewater system currently includes two major wastewater treatment plants, the Main Street Wastewater Treatment Plant (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 the needs of the system through 2021. 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 secondary 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 FDEP for discharge to Class III surface waters. The Main Street Plant meets all standards pursuant to its National Pollutant Discharge Elimination System (“NPDES”) 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.

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 carousel 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 2.77 Mgd AADF of reclaimed water in the fiscal year ended September 30, 2006. 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 15,507 manholes with 578 miles of gravity sewer, 50% of which consists of vitrified clay pipe. New facilities under 12 inches in diameter are primarily constructed of polyvinyl chloride (“PVC”) pipe, and those 12 inches in diameter and over 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 160 pump stations and over 127 miles of pipe. Existing lines under 12 inches in diameter are generally constructed of PVC pipe and those 12 inches in diameter and over 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 (HDPE). The System has instituted a preventative maintenance program to insure 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 \$77,064,000 in capital expenditures between the fiscal years ending September 30, 2007 through 2012, inclusive. A breakdown of the categories included in the six-year capital improvement program is outlined below.

Wastewater Capital Improvement Program

	Fiscal Years ending September 30,						Total
	2007	2008	2009	2010	2011	2012	
	(dollars in thousands)						
Plant Improvements	\$ 3,142	\$ 7,920	\$3,060	\$1,744	\$ 8,515	\$ 8,329	\$32,710
Reclaimed Water.....	2,955	12,317	3,424	3,248	3,409	773	26,126
Collection System	3,100	937	2,195	1,322	1,812	1,330	10,696
Miscellaneous and Contingency	2,328	2,133	1,018	680	684	689	7,532
Total.....	<u>\$11,525</u>	<u>\$23,307</u>	<u>\$9,697</u>	<u>\$6,994</u>	<u>\$14,420</u>	<u>\$11,121</u>	<u>\$77,064</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. Telecommunications licenses held allow GRUCom to provide telecommunication services throughout the State of Florida.

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 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 2.5 gigabits per second (“Gbps”). Part of GRUCom’s business strategy is to use unbundled network elements from the incumbent local exchange carrier (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 plans to offer expanded services including two-way, business voice service in the near 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 45 Mbps. Dedicated Internet access is also offered to residential customers in participating multi-dwelling complexes at speeds up to 6 Mbps. Additionally, GRUCom offers dial-up and ISDN Internet access services under the domain names GRU.Net, Gator.Net and SFCC.Net. The dial-up access speeds available are 56 Kbps and 128 Kbps. Various value-added Internet related services, such as e-mail and roaming, also are available.

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 system consists of 22 trunked voice frequencies and 6 wireless data frequencies. Antenna sites are linked to the network controller and various dispatch centers utilizing GRUCom’s transport services. Certain frequencies used by the system currently are being changed in conjunction with a mandate from the FCC which will accommodate PCS provider Nextel. All cost 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, 2006, GRUCom had a total of 107 transport customers with 917 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. At September 30, 2006, GRUCom had 2,852 dedicated Internet access customers while dial-up customers totaled 2,129.

GRUCom tower space leasing services are used primarily by wireless providers, which include cellular telephone and PCS companies. As of September 30, 2006, GRUCom had executed 41 tower leases, for space on 13 antenna sites with 7 different wireless communications service providers, including Alltel Mobile, AT&T Wireless, Cingular Wireless, Nextel Communications, Sprint PCS, T-Mobile USA and Verizon Wireless.

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 system was designed to accommodate additional participants, and the contract with each participating agency provides incentives to allow the system to expand. Currently, the system is in full operation with 2,632 subscriber units in service.

Description of Facilities

As of September 30, 2006 GRUCom had 275 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. For commercial services, GRUCom uses Gigabit 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 2.5 Gbps which is enough bandwidth to deliver more than 32,000 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, BellSouth, MCI, Intermedia Communications, Interstate Fibernet and Level 3 Communications.

GRUCom currently has two separate backbone connections into the Internet. One is a burstable 155 Mbps connection to the Internet from AT&T that is picked up by GRUCom at the Gainesville AT&T Point of Presence on the GRUCom fiber optic network. The other is a 45 mbps connection through Sprint's access node in Tallahassee, Florida. The Sprint connection is now in the process of being upgraded to a 155 mbps burstable connection. Additionally, a third backbone Internet connection at 100 mbps is also being installed to the Cogent Communications access node in Atlanta, Georgia. When these new services are in place GRUCom will have backbone connections to the Internet available totaling 410 mbps. 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 for the exchange of Internet traffic.

The public radio system employs a Motorola 821 MHz simulcast system configured with five (5) transmit and receive tower sites including 22 simulcast voice, 6 data frequencies, and 2 additional mutual aid channels.

Capital Improvement Program

The capital improvement program for GRUCom calls for expenditures of \$25,598,000 between the fiscal years ending September 30, 2007 through 2012, inclusive. The GRUCom 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	
	2007	2008	2009	2010	2011		2012
	(dollars in thousands)						
Fiber Optic Expansion.....	\$5,488	\$4,444	\$2,957	\$1,891	\$2,710	\$3,820	\$21,310
General Plant.....	1,969	210	156	111	174	123	2,743
Miscellaneous and Contingency.....	773	554	52	54	55	57	1,545
Total.....	<u>\$8,230</u>	<u>\$5,208</u>	<u>\$3,165</u>	<u>\$2,056</u>	<u>\$2,939</u>	<u>\$4,000</u>	<u>\$25,598</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 to comply with the rate covenants in the Resolution. See "SECURITY FOR THE BONDS – Rate Covenant" herein. Future projected rate changes provided in this Official Statement have been developed by System staff based on the most recent forecasts and operation projections available.

Electric System

The table below presents electric system base rate changes since 1998 and the most recent projected rate changes.

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

<u>Rate Changes</u>	<u>Base Rate Percent Increase (Decrease)</u>
Historical	
October 1, 1998	None
October 1, 1999	None
October 1, 2000	None
October 1, 2001	None
June 1, 2002.....	(4.25) ⁽¹⁾
October 1, 2002	(3.65) ⁽²⁾
October 1, 2003	None
October 1, 2004	None
October 1, 2005	3.0 ⁽³⁾
October 1, 2006.....	13.5 ⁽⁴⁾
Projected ⁽⁵⁾	
October 1, 2007	13.5
October 1, 2008	8
October 1, 2009	5
October 1, 2010	4.5
October 1, 2011	1.0

- (1) Overall system rate decrease of 4.25%. The decrease for each rate class was: Residential 2.63%; General Service Non-Demand 1.67%; General Service Demand 9.51%; and Large Power 2.56%.
- (2) Overall rate decrease of 3.65%. 1.78% was applied to the General Service Demand Class, resulting in a 7.37% base rate reduction for that rate class and 1.25% was applied to the Residential Class, resulting in a 2.5% rate reduction for that rate class.
- (3) Overall system rate increase of 3%. Customer Charge for all classes increased by 5%. The Residential and General Service Non-Demand Class have a two tier rate structure. For each class the second rate tier was increased with no increase to the first tier. General Service demand and Large Power Classes demand charges were increased while energy charges remained unchanged.
- (4) Overall system rate increase of 13.5%. The customer charge for all customer classes was increased to reflect the cost of service. The remaining revenue requirement was obtained by increasing the charge per kWh for all customer classes and a third residential tier was added. Breaks in residential tiers changed to 0-250, 251-750 and above 750 kWh usage, with higher rates in the second and third tiers to promote conservation. Similar increases were made to commercial kWh and kW charges.
- (5) All changes in the System's rates are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

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”), begun in November 1997, is a program that provides discounts on the non-fuel portions of participating commercial customers’ electric bills. In return, customers commit to the System as their exclusive provider of electric power for ten (10) years or until they cease to conduct business within the System’s electric service area. The agreement provides for a “buy-out” clause under which the customer may terminate the agreement for any reason by providing 90 days’ written notice, paying an early termination fee of \$250, and reimbursing the System the full value of the discounts granted during the previous 36 months. The agreement also provides a “favored nations” clause that will allow customers to take advantage of any subsequent offers by the System that may be more favorable. When first started, the Business Partners Program offered discounts of 7% to General Service Non-Demand and Demand Customers and 10% to Large Power customers. Effective June 1, 2002, the discounts for the General Service Demand and Large Power rate classes were increased by 3% so that the new available discounts for these classes are 10% and 13%, respectively. In order to obtain these increased discounts, customers are required to execute a new Business Partners Program agreement for a ten-year term. Effective October 1, 2006, no new Business Partner Contracts will be entered into. Contracts already in effect will be honored until expiration date.

The City Commission ratified residential rates under a revised three-tier structure for fiscal year 2006. This structure reflects a lower rate for low quantity users, rewarding customers who conserve and assisting low use, low income 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 current electric rates, which were effective as of October 1, 2006, 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.....	\$ 5.17
First 250 kWh, Total charge per kWh	\$ 0.024
251 – 750 kWh, Total charge per kWh	\$0.058
All kWh per month over 750, Total charge per kWh	\$ 0.083

Residential Optional Time-of-Use Rate

Customer charge, per month.....	\$ 8.75
Energy charge:	
All energy used on-peak, per kWh.....	\$ 0.1028
All energy used off-peak, per kWh	\$ 0.0323

Peak periods shall be as follows:

Summer peaks: May 15 through October 15, 12:00 noon through 9:00 p.m., weekends and holidays included.

Winter peaks: January 1 through February 28, 7:00 a.m. through 11:00 a.m. and 6:00 p.m. through 10:00 p.m., weekends and January 1 are 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.....	\$ 15.18
First 1,500 kWh per month, Total charge per kWh	\$ 0.05548
All kWh per month over 1,500, Total charge per kWh.....	\$ 0.07183

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.....	\$30.92
Total Demand charge, per kW	\$ 7.56
Total Energy charge, per kWh.....	\$ 0.02633

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.....	\$245.05
Total Demand charge, per kW	\$ 7.08
Total Energy charge, per kWh.....	\$ 0.02597

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.

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 11,393 kWh in the fiscal year ended September 30, 2006.

Comparison of Monthly Electric Bills (1)

	<u>Residential 1,000 kWh</u>	<u>General Service(2)</u>		<u>Large Power(2)</u>
		<u>Non-Demand 1,500 kWh</u>	<u>Demand 30,000 kWh 75 kW</u>	<u>430,000 kWh 1,000 kW</u>
JEA	\$ 88.33	\$126.02	\$2,189.90	\$30,102.40
Florida Power & Light.....	94.25	154.66	2,581.15	35,676.95
Clay Electric Cooperative.....	96.10	147.15	2,476.75	33,533.00
Orlando Utilities Commission	97.95	152.74	2,381.40	33,029.00
Gainesville Regional Utilities	101.92	159.83	2,479.04	33,629.07
Progress Energy Florida	107.58	166.76	2,664.87	37,700.51
Tampa Electric.....	111.68	163.02	2,759.55	38,473.60
Ocala Electric	114.44	162.16	2,499.15	34,934.90
Lakeland	118.91	174.80	3,045.40	43,264.70
City of Tallahassee	137.44	186.26	3,539.40	49,251.90

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) Based on the monthly bill for January 2007, ranked by residential bills. Excludes public utility taxes, sales taxes, surcharges, and franchise fees.
- (2) The System's bills assume participation in the Business Partners Program.

Natural Gas System

The table below gives the results of natural gas system base rate increases since 1998 and the most recent projected rate changes.

**Natural Gas System Rate Changes
Base Rate Change
(Excluding Purchased Gas Adjustment)**

<u>Rate Changes</u>	<u>Base Rate Percent Increase</u>
Historical	
October 1, 1998	None
October 1, 1999	6.00%
October 1, 2000	3.75
October 1, 2001	4.50
October 1, 2002	None ⁽¹⁾
October 1, 2003	2.00 ⁽²⁾
October 1, 2004	None
October 1, 2005	None
October 1, 2006	None
Projected ⁽³⁾	
October 1, 2007	8.0%
October 1, 2008	7.0
October 1, 2009	7.0
October 1, 2010	6.0
October 1, 2011	6.0

- (1) A separate charge for remediation of the MGP site was implemented. For additional information on the MGP site, see “THE NATURAL GAS SYSTEM – Manufactured Gas Plant” herein.
- (2) 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 0.0207 to 0.0321.
- (3) All changes in the System’s rates are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System’s annual budget.

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, 2006, are provided below by class of service:

Residential Service Rate	
Customer Charge	\$7.04 per month
Non-Fuel Energy Charge	\$0.43747 per therm
General Firm Service Rate	
Customer Charge	\$17.60 per month
Non-Fuel Energy Charge	\$0.26700 per therm
Interruptible Service Rate	
Customer Charge	\$351.90 per month
Non-Fuel Energy Charge	\$0.20363 per therm
Large Volume Interruptible Rate	
Customer Charge	\$351.90 per month
Energy Charge	\$0.13696 per therm
Manufactured Gas Plant Cost Recovery Factor (Applied to All Rate Classes)	
	\$0.03210 per therm

Customers in all classes are charged a purchased gas adjustment and the Manufactured Gas Plant Cost Recovery Factor (“MGPCRF”). 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 charges for the month of January 2007 are compared to those for nine 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⁽¹⁾

	<u>Residential 35 therms</u>	<u>General Firm 300 therms</u>	<u>Interruptible 35,000 therms</u>
Gainesville Regional Utilities	\$47.42	\$312.60	\$32,159.90
Ft. Pierce.....	50.58	288.08	N/A
Okaloosa Gas District	57.19	420.15	N/A
City of Tallahassee	58.26	409.43	37,085.50
Tampa ⁽²⁾	60.65	421.40	40,075.20
Jacksonville ⁽²⁾	60.65	421.40	40,075.20
Kissimmee ⁽²⁾	60.65	421.40	40,075.20
Lakeland ⁽²⁾	60.65	421.40	40,075.20
Orlando ⁽²⁾	60.65	421.40	40,075.20
City of Sunrise ⁽³⁾	63.16	473.23	N/A
Clearwater Gas System ⁽⁴⁾	75.90	569.00	48,100.00

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) Based on average of monthly bills in January 2007 (excludes all taxes and franchise fees). Sorted in ascending order by residential charges.
- (2) Service provided by People’s Gas.
- (3) Rates effective August 2006.
- (4) No rates for interruptible service. Negotiated by contract only.

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Water and Wastewater Systems

The table below gives the results of water system rate changes since 1998 and the most recent projected rate changes.

Water System Rate Changes

<u>Rate Changes</u> ⁽¹⁾	Percentage Rate Increase (Decrease)
Historical	
October 1, 1998	None ⁽²⁾
October 1, 1999	None ⁽³⁾
October 1, 2000	None
January 1, 2001	None ⁽⁴⁾
April 1, 2001	None ⁽⁵⁾
October 1, 2002	None
October 1, 2003	3.00%
October 1, 2004	6.40 ⁽⁶⁾
October 1, 2005	15.00 ⁽⁷⁾
October 1, 2006	25.00 ⁽⁸⁾
Projected ⁽⁸⁾	
October 1, 2007	13.0%
October 1, 2008	12.0
October 1, 2009	9.0
October 1, 2010	5.0
October 1, 2011	3.0

- (1) The rate changes only affect the customer billing charge and the per thousand gallon rate charged customers, unless stated otherwise.
- (2) In October 1998, University of Florida on-campus charges increased by 3.2% and off-campus charges increased by 10.3%.
- (3) In the fiscal year ended September 30, 1999, Phase 1 of indexing University of Florida rates to non-residential rates began by increasing on-campus rates 4.6% and off-campus rates 5%.
- (4) On January 1, 2001, University of Florida rates were fully indexed to non-residential rates by increasing the on-campus charge per thousand gallons by 1.5%.
- (5) For residential customers, during the months of April through October, a charge per thousand gallons for 25,000 gallons and above was established at \$2.22.
- (6) In October 2004, inverted block rate structure applied to residential sales on year-round basis, no longer only during April-October. University of Florida charges became cost of service study based. On-campus charges increased by 15% and off-campus charges increased by 12%.
- (7) In October 2005, University of Florida on-campus charges increased by 11% and off-campus charges increased by 8.41%.
- (8) The customer charge for all customer classes was increased to reflect the cost of service. The remaining revenue requirement was obtained by increasing the charge per 1,000 gallons in all customer classes and all three residential tiers, with a greater increase to the second and third tiers to promote conservation. The commercial non-tiered rate was increased to be equal to the second tier of the residential rate.
- (9) All changes in the System's rates are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

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The table below gives the results of wastewater system rate changes since 1998 and the most recent projected rate changes.

Wastewater System Rate Changes

<u>Rate Changes</u> ⁽¹⁾	<u>Percentage Rate Increase</u>
Historical	
October 1, 1998	None
October 1, 1999	None
October 1, 2000	None
October 1, 2001	2.00%
October 1, 2002	3.00
October 1, 2003	3.00
October 1, 2004	5.25
October 1, 2005	15.00
October 1, 2006	25.00 ⁽²⁾
Projected ⁽²⁾	
October 1, 2007	15.00%
October 1, 2008	11.00
October 1, 2009	9.00
October 1, 2010	2.00
October 1, 2011	None

- (1) The rate changes only affect the customer billing charge and the per thousand gallon rate charged customers, unless stated otherwise.
- (2) For fiscal year 2007, revenue requirements for the Wastewater System increased by 25%. The customer charge for all customer classes was increased to reflect the cost of service and all customers, both residential and commercial, pay the same rate per 1,000 gallons billed.
- (3) All changes in the System's rates are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

Rates and Charges for Water and Wastewater Services

Total water and wastewater system revenues are derived from two basic types of charges which reflect costs: (a) monthly service charges and (b) connection charges. The 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.

Residential water rates were amended in April 2001 to incorporate a third tier into the seasonal inverted block rate structure. Residential customers originally paid a flat rate per thousand gallons during the billing months of November through March. During the billing months of April through October (the irrigation season), residential customers were 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% higher than the second tier. The third tier was established to recover capital impacts on the water system by high-volume users. On October 1, 2004, the residential inverted block rate was charged in all months, no longer seasonally.

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, 2006.

Current Monthly Charges For Water and Wastewater Services

Water Rates:

Residential	
Customer Billing Charge.....	\$4.86 per month
Consumption Rate:	
First 9,000 gallons	\$1.42 per 1,000 gallons
Over 9,000 to less than 25,000 gallons.....	\$2.35 per 1,000 gallons
25,000 or more gallons	\$4.04 per 1,000 gallons
Commercial	
Customer Billing Charge.....	\$4.86 per month
Consumption Rate	\$2.35 per 1,000 gallons
University of Florida	
Customer Billing Charge.....	\$4.86 per month
Consumption Rate:	
On-campus facilities.....	\$1.04 per 1,000 gallons
Off-campus facilities	\$1.15 per 1,000 gallons
City of Alachua ⁽¹⁾	
Customer Billing Charge.....	\$4.86 per month
Consumption Rate	\$1.21 per 1,000 gallons

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Wastewater Rates:

Residential and Commercial	
Customer Billing Charge.....	\$3.52 per month
All Usage ⁽²⁾	\$3.94 per 1,000 gallons
Tacachale ⁽³⁾	
Fixed Charge	\$4,213.36 per month
All Usage.....	\$1.34 per 1,000 gallons

- (1) The System provides wholesale water service to Alachua for resale to a residential subdivision.
- (2) Wastewater rates apply to all metered water consumption up to a specified maximum. The residential maximum is established for each customer based upon its winter (December or January) maximum water consumption. The non-residential maximum is 95% of metered water use.
- (3) The wastewater rates are calculated to compensate for specific customer-borne capital costs.

Comparison with Other Cities

Average water and wastewater charges in effect in January 2007 are compared to those for 12 other Florida cities in the table below.

Comparison of Monthly Residential Water and Wastewater Bills⁽¹⁾

<u>City</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Tampa.....	\$10.75	\$31.44	\$42.19
Orlando.....	12.71	31.20	43.91
Lakeland.....	16.47	27.79	44.26
Gainesville.....	14.80	31.10	45.90
Tallahassee ^{(2) (3)}	17.67	31.23	48.90
Jacksonville.....	14.85	34.97	49.82
Orange County.....	13.73	36.15	49.88
Pensacola (ECUA).....	18.67	32.60	51.27
Winter Haven ⁽²⁾	20.77	32.69	53.46
Lake City.....	20.25	40.66	60.91
Ft. Pierce.....	25.88	38.88	64.76
Daytona Beach.....	31.01	36.74	67.75
Ocala ⁽³⁾	15.94	51.89	67.83
St. Augustine.....	30.37	40.09	70.46

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 in January 2007; 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, 2006 transmission and distribution/collection system connection charges for individual lots are \$329 to connect to the water system and \$141 to connect to the wastewater system. The water meter installation charge is \$400 for a typical single family dwelling (requiring 5/8 inch meter). The current water system connection charges for a typical single family dwelling (requiring 5/8 inch meter) are \$1,248 for new water service and the wastewater flow-based connection charges are \$1,615 for new wastewater service. Total water and wastewater connection charges for a typical single family dwelling are \$2,863.

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SUMMARY OF COMBINED NET REVENUES

The following table sets forth a summary of combined net revenues for the fiscal years ended September 30, 2004 through September 30, 2006 and for the three-month periods ended December 31, 2005 and December 31, 2006, and has been prepared in accordance with the requirements of the Resolution. The information in the table for the fiscal years ended September 30, 2004 through September 30, 2006 is derived from the audited financial statements of the City for the System. The information in the table for the six-month periods ended December 31, 2005 and December 31, 2006 is unaudited. Such information should be read in conjunction with the City's audited financial statements for the System and the notes thereto. The audited financial statements for the fiscal years ended September 30, 2006 and 2005 are included as APPENDIX A to this Official Statement.

	Fiscal Years Ended September 30,			Three Months Ended December 31,	
	2004	2005	2006	2005 (unaudited)	2006 (unaudited)
(dollars in thousands)					
Revenues:					
Electric	\$172,619	\$178,930	210,428	\$47,531	\$46,595
Gas	23,570	27,210	31,269	10,197	7,069
Water.....	18,549	17,190	19,467	4,986	5,908
Wastewater.....	22,280	22,142	23,439	5,128	6,842
GRUCom	7,482	8,640	7,819	2,060	2,086
Total Revenues.....	\$244,500	\$254,112	292,422	\$69,902	\$68,500
Operation and Maintenance Expenses:					
Electric	\$119,859	\$132,258	162,604	\$35,623	\$32,430
Gas	18,680	21,377	26,690	9,122	5,896
Water.....	8,923	9,088	9,806	2,461	2,733
Wastewater.....	10,067	10,387	11,305	2,644	2,935
GRUCom	3,972	4,509	4,745	1,263	1,268
Total Operation and Maintenance Expenses.....	\$161,501	\$177,619	\$215,150	\$51,114	\$45,262
Net Revenues:					
Electric	\$52,760	\$46,672	\$47,824	\$11,908	\$14,166
Gas	4,890	5,833	4,579	1,074	1,173
Water.....	9,626	8,102	9,661	2,525	3,175
Wastewater.....	12,213	11,755	12,134	2,484	3,907
GRUCom	3,510	4,131	3,074	797	818
Total Net Revenues	\$82,999	\$76,493	\$77,272	\$18,788	\$23,238
Aggregate Debt Service on Bonds	\$26,673	\$24,877	\$34,108	\$7,367	\$10,394
Debt Service Coverage Ratio for Bonds	3.11	3.07	2.27	2.55	2.24
Debt Service on Subordinated Indebtedness ⁽¹⁾	\$6,882	\$10,599	\$6,943	\$2,760	\$1,355
Total Debt Service on Bonds and Subordinated Indebtedness	\$33,555	\$35,476	\$41,051	\$10,127	\$11,750
Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness	2.47	2.16	1.88	1.86	1.98

(1) 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. Includes principal payments on commercial paper notes in the amount of approximately \$9.0 million for the three fiscal years ended September 30, 2005.

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, rates were not increased during the fiscal years ended September 30, 2004 through September 30, 2005. However, in the fiscal year ended September 30, 2006, electric system rates were increased 3.0%. In all of these years consumers felt price increases due to rising fuel and purchased power costs, which are passed through to customers through fuel adjustment charges. Electric system base rates were increased by 13.5% for the fiscal year ending September 30, 2007.

Energy sales (in MWh) to retail and wholesale customers (native load) increased 1.3% from the fiscal year ended September 30, 2004 to the fiscal year ended September 30, 2005 and increased 3.2% from the fiscal year ended September 30, 2005 to the fiscal year ended September 30, 2006 and decreased 9.9% from the three months ended December 31, 2005 to the three months ended December 31, 2006. The number of electric customers increased at an average annual rate of 1.75% between the fiscal years ended September 30, 2004 and September 30, 2006.

Native load fuel costs increased by approximately \$12.7 million from the fiscal year ended September 30, 2004 to the fiscal year ended September 30, 2005 and increased by approximately \$26.1 million from the fiscal year ended September 30, 2005 to the fiscal year ended September 30, 2006 and decreased by approximately \$6 million from the three months ended December 31, 2005 to the three months ended December 31, 2006. The primary reason for the yearly increases was the increased cost of natural gas used as fuel for the System's generating facilities. However, the cost of natural gas used as fuel has decreased in cost in the current year, accounting for the decrease in cost as of December 31, 2006.

Net revenues from electric interchange sales decreased by approximately \$0.3 million from the fiscal year ended September 30, 2004 to the fiscal year ended September 30, 2005 and increased by approximately \$0.3 million from the fiscal year ended September 30, 2005 to the fiscal year ended September 30, 2006. The lack of growth in net revenues from electric interchange sales is primarily the result of growth in the System's native load, which results in less capacity being available for non-firm economy sales and, accordingly, in lower sales volumes and sales margins. Net revenues from electric interchange sales increased by approximately \$0.05 million from the three months ended December 31, 2005 to the three months ended December 31, 2006.

In the fiscal year ended September 30, 2004, the weather resulted in a decrease in the System's cash reserves. During that year, two major hurricanes caused damage to certain of the System's operating facilities totaling approximately \$7.4 million, with the vast majority of cost affecting the electric system. Applications for reimbursement from the Federal Emergency Management Agency were made and grant funds of approximately \$6.8 million have been received so far. These moneys have been used to replenish the System's cash reserves.

Natural gas system retail sales are largely dependent on winter weather. Sales decreased from 23.6 million therms to 22.4 million therms from the fiscal year ended September 30, 2004 to the fiscal year ended September 30, 2005. For the fiscal year ended September 30, 2006, sales again decreased to 22.0 million therms. The number of gas customers increased at an average annual rate of 2.60% between

the fiscal years ended September 30, 2004 and September 30, 2006. For the three months ended December 31, 2006, sales increased by 67,575 therms as compared to the corresponding period in the prior fiscal year. Natural gas costs increased by approximately \$2.3 million from the fiscal year ended September 30, 2004 to the fiscal year ended September 30, 2005, and increased by approximately \$5.0 million from the fiscal year ended September 30, 2005 to the fiscal year ended September 30, 2006 and decreased by approximately \$3.6 million for the three months ended December 31, 2006 as compared to the corresponding period in the prior fiscal year. Since these costs are passed along to customers as part of a purchased gas adjustment charge each month, the increases in costs were offset by corresponding increases in revenues. The number of natural gas system customers increased by 5.2% between the fiscal year ended September 30, 2004 and the fiscal year ended September 30, 2006.

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 \$11.7 million. See "THE NATURAL GAS SYSTEM – Manufactured Gas Plant" herein. In the fiscal year ended September 30, 2004, gas system rates were increased 2.0% and, in addition, the rate for the per therm charge with respect to the MGP site was increased from 0.0207 to 0.0321. No gas system rate increases were required in the fiscal years ended September 30, 2003, 2005 and 2006 or the fiscal year ending September 30, 2007.

Water system sales are dependent on seasonal rainfall. Revenues from water sales increased by approximately \$1.4 million from the fiscal year ended September 30, 2004 to the fiscal year ended September 30, 2005, and increased by approximately \$4.2 million from the fiscal year ended September 30, 2005 to the fiscal year ended September 30, 2006 and increased by approximately \$1.2 million from the three months ended December 31, 2005 to the three months ended December 31, 2006. These changes were impacted primarily by rainfall levels, although the number of water customers increased at an average annual rate of 2.81% between the fiscal years ended September 30, 2004 and September 30, 2006. Water revenues increased for the comparative three month periods and are projected to increase significantly from the fiscal year ended September 30, 2006 to the fiscal year ending September 30, 2007, largely the result of rate increases. Although revenues received from water system sales have shown a fairly steady increase, there was a slight decrease in revenues for the fiscal year ended September 30, 2005. This slight decrease in revenues, accompanied by an increase in operating costs, required a slightly higher than expected withdrawal from the Rate Stabilization Fund in the fiscal year ended September 30, 2005. In accordance with projections, revenues increased significantly for the fiscal year ended September 30, 2006, allowing for a contribution to the Rate Stabilization Fund of approximately \$1 million. Water system rates were increased by 6.4% in the fiscal year ended September 30, 2005, by 15.0% in the fiscal year ended September 30, 2006 and by 25.0% in the fiscal year ending September 30, 2007.

Wastewater system billings generally track water system sales. Wastewater billings decreased 2.9% from the fiscal year ended September 30, 2004 to the fiscal year ended September 30, 2005, and increased 0.5% from the fiscal year ended September 30, 2005 to the fiscal year ended September 30, 2006 and increased 23.1% from the three months ended December 31, 2005 to the three months ended December 31, 2006.. Wastewater billings increased for the three month comparatives and are projected to increase during the fiscal year ending September 30, 2007, due in large part to rate increases implemented for that fiscal year. The number of wastewater customers increased at an average annual rate of 2.99% between the fiscal years ended September 30, 2004 and September 30, 2006. Slightly higher than anticipated withdrawals from the Rate Stabilization Fund were required in the fiscal year ended September 30, 2005 in order to offset higher than expected operating costs. However, as with the water system, rate increases for the fiscal year ended September 30, 2006 provided significantly higher revenues, allowing for a Rate Stabilization Fund contribution of \$1.5 million for the fiscal year ended September 30, 2006. Wastewater rates were increased by 3.0% in the fiscal year ended September 30,

2004, by 5.25% in the fiscal year ended September 30, 2005, by 15% in the fiscal year ended September 30, 2006 and by 25.0% in the fiscal year ending September 30, 2007.

GRUCom continued to expand its services during the period from the fiscal year ended September 30, 2003 to the fiscal year ended September 30, 2006. For the fiscal years ended September 30, 2003 and 2004, GRUCom revenues remained constant. From the fiscal year ended September 30, 2004 to the fiscal year ended September 30, 2006, GRUCom sales increased by approximately 8%. For the fiscal year ended September 30, 2006, GRUCom contributed approximately \$1 million to the Rate Stabilization Fund, which is a significant increase over the prior year. For the three months ended December 31, 2006, revenues increased slightly, by \$152,000 as compared to the same period in the prior fiscal year.

The Debt Service Coverage Ratio for Bonds decreased from 3.11 to 3.07 from the fiscal year ended September 30, 2004 to the fiscal year ended September 30, 2005, and decreased further to 2.27 for the fiscal year ended September 30, 2006. The Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness decreased from 2.47 to 2.16 from the fiscal year ended September 30, 2004 to the fiscal year ended September 30, 2005, and decreased further to 1.88 for the fiscal year ended September 30, 2006. These decreases in the Debt Service Coverage Ratios were the result of decreases in Net Revenues and, in the case of the Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness for the fiscal year ended September 30, 2006, an increase in Total Debt Service for such fiscal year. For the three months ended December 31, 2006, the Debt Service Coverage Ratio for Bonds was 2.24, 0.31 lower than the ratio for the three months ended December 31, 2005. For the three months ended December 31, 2006, the Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness was 1.98, 0.12 higher than the ratio for the three months ended December 31, 2005. The decrease in Debt Service Coverage was primarily the result of Debt Service increasing by over \$3 million for the three months ended December 31, 2006. The increase in Debt Service Coverage for bonds and Subordinated Indebtedness increased as a result of Net Revenues increasing nearly 24%, while Total Debt Service increased only 16% for the three months ended December 31, 2006.

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:

	Transfers from (to) the Rate Stabilization Fund			Balance at September 30, 2006⁽¹⁾
	Fiscal Years Ended September 30,			
	(dollars in thousands)			
	2004	2005	2006	
Electric	\$6,452	\$(135)	\$(2,048)	\$42,377
Gas	(1,131)	761	(466)	6,695
Water.....	3,066	1,535	(878)	117
Wastewater.....	3,363	1,817	(1,158)	2,603
GRUCom.....	(689)	(5)	(1,036)	2,846
Total.....	<u>\$11,061</u>	<u>\$3,973</u>	<u>\$(5,586)</u>	<u>\$54,638</u>

(1) Includes amounts on hand plus amounts to be deposited or withdrawn that were accrued as of September 30, 2006.

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.

Transfers to General Fund

For the electric system, until 1999, the transfer to the General Fund was made in an amount equal to the amount of current year's electric surcharge plus 14.65% of the difference between the second preceding year's gross revenues and the sum of the second preceding year's surcharges, fuel expenses and certain fuel-related debt service.

In summer of 2000, the City Commission adopted a new 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%.

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.

In August 2005, the City Commission instructed Management of the System to prepare to begin 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, 2006 was set at \$315,323.

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 2007 Series A 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, 2004 through 2006 (as determined in accordance with the formulas described above) were as follows:

Fiscal Years ended September 30,	Transfers to General Fund	
	<u>Amount</u>	<u>% Increase</u>
2004	27,010,442	4.2
2005	27,279,644	1.0
2006	29,431,037	7.8

Investment Policies

The System's investment policy provides for investment of its funds to obtain a maximum yield consistent with preservation of capital, liquidity of the portfolio, Resolution requirements, and 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.

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 Coelectric Partners, Inc., a member-owned collaborative business serving the public power industry. Coelectric 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 ("APPA"), the Florida Municipal Electric Association, and FMPA. Furthermore, the System has teamed up with three other Florida utilities (Kissimmee Utilities Authority, JEA, and the City of Tallahassee) to form the Florida Municipal Group ("FMG") to address common issues and concerns related to the development of regional transmission organizations in the southeastern United States pursuant to FERC Order No. 2000. 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. It should

also be noted that the System itself also took advantage of gas deregulation and started procuring its gas in the competitive gas supply market directly from producers for its power system as well as its gas distribution system, first with its own staff, then through the formation of FGU, followed by a cooperative agreement with an independent gas marketer, and now, through TEA.

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.

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 as a relative newcomer in the fully deregulated and competitive telecommunications environment. Management of the System 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 Ethernet and ATM, 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 year, 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. The System has a memorandum of understanding ("MOU") with the University of Florida's Shands Teaching Hospital to provide chilled water, steam, and emergency generation from a facility located on a portion of a new medical complex campus being developed. The medical campus will include 3,000,000 square feet of facilities at buildout. Services will be provided on the basis of a "cost plus" open book, long term (50 year) contract. The System also has MOU's to provide similar services to two other large, multi-story mixed-use buildings being developed in Gainesville. The System's strategy does not depend on extensive distribution systems, instead each chilled water and generation facility is located on the premise of the development.

Currently, there is no initiative and little indication of interest in pursuing retail electric deregulation either in Florida or nationwide. Management of the System 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 will require many of the same goals and targets required 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.

Federal Excise Tax in LILO/SILO Transaction

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.

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, the System 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 an AAA-rated insurance company. 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 the System.

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 “2005 Act”). Among other provisions, the 2005 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). The City currently is evaluating this legislation. At this time, the magnitude of any excise tax that the City may owe under the 2005 Act (as a result of having entered into the lease/ leaseback transaction) is uncertain because, among other reasons, the 2005 Act fails to define important terms relating to the application and measurement of the tax. Accordingly, the City is unable to determine at this time whether the imposition of the excise tax will have a material adverse effect on its results of utility operations or financial condition.

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 has 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 has culminated in the passage of SB 1322. Although the System has special status as a grandfathered entity under this legislation, there are some implications should GRUCom seek to expand into additional lines of service that will be discussed in this section.

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, SO₂ and NO_x into the air; discharges of pollutants, including heat, into surface waters or groundwaters; 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 global warming and the effects of greenhouse gases on the environment likely have increased the possibility that regulations governing carbon emissions will be adopted at the federal, state and/or local levels. GRU 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.

Air Emissions

The System's Deerhaven and JRK Stations are subject to CAIR and CAMR which were promulgated in 2005. These units are also subject to some or all of the requirements of the 1990 Amendments to the Clean Air Act.

CAIR and CAMR are two-phase cap and trade programs under which utilities have several options for complying with the emissions cap, including installation of emission controls, purchasing allowances or switching fuels. Management of the System has decided that the best long-term compliance option for the System is the installation of emission controls on Deerhaven 2, the System's only coal-fired unit. These controls will consist of Selective Catalytic Reduction, Flue Gas Desulfurization and a Fabric Filter. Significant capital and operating and maintenance expenditures will be required prior to 2009 and 2010, the CAIR compliance dates for Phase I of the NO_x and SO₂ emission caps, respectively. It is expected that compliance with the Phase I, and possibly Phase II, emission caps for mercury will be achieved through the co-benefits of installing the SO₂ and NO_x emission control systems. An Engineer, Procure, and Construct ("EPC") Contractor has been competitively selected and a contract has been executed to install the needed facilities in a timely manner.

The electric utility industry will also be required to comply with pending regulations pertaining to regional haze and potentially greenhouse gases. The nature and extent of such further regulations on the System's operation cannot yet be fully predicted but may require increased capital and operation and maintenance expenditures.

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. There are no underground storage tanks remaining in the electric system. The System is insured for the requisite amounts. In 2001, five residual fuel oil tanks at the JRK Station were retired and removed due to the decreased utilization of this fuel. The System rehabilitated and placed two distillate fuel storage tanks in service in 2003. During 2006, the existing Deerhaven south bulk tank will be converted from distillate to residual fuel oil and an existing out-of-service tank will be retrofitted and put into service for distillate storage.

See “THE UTILITIES SYSTEM – Energy Supply System – *Generating Stations – Deerhaven*” herein for a discussion of a recent release of No. 6 fuel oil as a result of an inadvertent overfilling of a bulk storage tank at the Deerhaven Station.

Nuclear Waste Disposal Regulation

On January 7, 1983, the Nuclear Waste Policy Act of 1982 became effective. In general, that 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 of Florida to resolve State liability issues.

The Georgia Environmental Protection Department has recently asserted that the System is PRP at the Holley Electric site in Jesup, Georgia. At this time the System’s liability at the site is not clear as

information developed to date indicates System 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 of the System does not anticipate that the System liability for this site, if any, will be more than “de minimis”.

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

Management of the System 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 generally they are below the Florida 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.

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. On August 1, 1991, St. Johns River Water Management District (“SJRWMD”) put in place a permanent district-wide restriction prohibiting residential irrigation between the hours of 10 AM and 4 PM daily.

Effective March 1, 2006, SJRWMD imposed lawn and landscape irrigation restrictions that limit irrigation to two days per week.

Other Potential Environmental Liabilities

In September 2000, the System received from EPA a Request for Information pursuant to its authority under Section 114 of the Clean Air Act as part of the EPA’s investigation of coal-fired electric utility boilers relative to New Source Review requirements or New Source Performance Standards under the Clean Air Act. The System timely provided the requested information to EPA in two submittals, November 2000 and January 2001. There have been no further communications between the EPA and the System on this issue and it is uncertain whether any actions by EPA will be taken.

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 and a Notice of Proposed Rulemaking (“NOPR”) to address and implement the transmission access provisions of the 1992 Energy Policy Act. Order No. 888 established the terms and conditions under which open access would be provided, and Order No. 889 established the rules of conduct surrounding the provision of open access, notably the separating of marketing from transmission and power operations. Municipally-owned electric utilities (including the System) are not subject to FERC jurisdiction under these orders but may be denied reciprocal transmission services from a FERC-jurisdictional utility if they do not offer comparable transmission services. As previously discussed, the System offers reciprocal 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 RTOs. The implications of Order No. 2000 were further clarified and deepened when FERC issued its NOPR for a standard market design (“SMD”) to accompany the formation of ISO/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.

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 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 REPRI 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 the 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 15 year maturity unless otherwise approved by a public referendum; (f) retail services must not be subsidized; (g) maintain adequate record keeping and policies for cost allocation; (h) establish a separate enterprise fund; (i) establish a separate budget; (j) may not use its powers of eminent domain solely to provide communications services; (k) conduct annual reviews at a public meeting; and (l) if after 4 years revenues do not exceed operating expenses, principal and interest, a public meeting must be held 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 \$10.76 billion (based on 116 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 \$100.6 million per licensed nuclear reactor per occurrence (subject to an annual payment limit of \$15 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 \$1,416,000 per incident but would be limited to approximately \$211,000 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 \$15,000,000 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 million, resulting in total nuclear decontamination, premature decommissioning and property damage coverage of \$2,250 million.

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 \$7.8 million with respect to the primary coverage, \$9.0 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 \$300.0 million. The second level of coverage obtained through the assessments discussed above would continue to apply to losses exceeding \$300.0 million and would provide coverage in excess of any diminished primary limits due to terrorist acts.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel (“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 2007 Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is of the further opinion that interest on the 2007 Series A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel is also of the opinion that the 2007 Series A Bonds and the interest thereon are exempt from taxation under existing laws of the State of Florida, except as to estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations, banks and savings associations. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX F hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2007 Series A Bonds. The City has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2007 Series A Bonds will not be included in federal gross income. (See “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Special Provisions Relating to 2007 Series A Bonds” in APPENDIX C hereto.) Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2007 Series A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2007 Series A 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 2007 Series A Bonds may adversely affect the value of, or the tax status of interest on, the 2007 Series A Bonds.

Although Bond Counsel is of the opinion that interest on the 2007 Series A Bonds is excluded from gross income for federal income tax purposes and that the 2007 Series A Bonds and the interest thereon are exempt from taxation under existing laws of the State of Florida, except as to estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations, banks and savings associations, the ownership or disposition of, or the accrual or receipt of interest on, the 2007 Series A 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 legislation, if enacted into law, or clarification of the Code may cause interest on the 2007 Series A Bonds to be subject, directly or indirectly, to federal 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 legislation or clarification of the Code may also affect the market price for, or marketability of, the 2007 Series A Bonds. Prospective purchasers of the 2007 Series A Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, 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 2007 Series A 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 2007 Series A Bonds ends with the issuance of the 2007 Series A 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 2007 Series A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and their 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 2007 Series A 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 2007 Series A Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

RATINGS

The 2007 Series A Bonds have received ratings of "[AA/A-1+]" and "[Aa2/VMIG 1]" 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. 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 2007 Series A 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 2007 Series A Bonds, or in any way questioning or affecting (i) the proceedings under which the 2007 Series A Bonds are to be issued, (ii) the validity of any provision of the 2007 Series A 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 is party to various federal, State and local claims, proceedings and lawsuits for damages claimed to result from the operation of the System. Management of the System 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.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of the mathematical computations of the adequacy of the principal of and interest on the Government Obligations and the moneys to be on deposit in the Escrow Account to provide for the

payment when due of the interest on and the redemption price of the Refunded Bonds will be verified by Dufresne & Associates, CPA, PA. Such verifications will be based upon certain public information supplied to Dufresne & Associates, CPA, PA by or on behalf of the City.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the 2007 Series A Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX 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 Underwriter by Nixon Peabody LLP, New York, New York, Counsel to the Underwriter. Certain legal matters with respect to the Initial Liquidity Facility and the Bank will be passed upon for the Bank by Winston & Strawn LLP, Chicago, Illinois, counsel to the Bank.

INDEPENDENT AUDITORS

The financial statements of the System as of September 30, 2006 and 2005 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 Underwriter has agreed, subject to certain conditions, to purchase the 2007 Series A Bonds from the City at an aggregate discount of \$270,942.26 from the initial offering price thereof. The 2007 Series A 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 Underwriter. The Underwriter is Bear, Stearns & Co. 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 2007 Series A Bonds. In addition, the 2007 Series A 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 2007 Series A 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 _____
Interim General Manager for Utilities

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