

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 2008 Series B 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 2008 Series B 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 2008 Series B Bonds and the interest thereon are exempt from taxation under existing laws of the State of Florida, except as to estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations, banks and savings associations. 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 2008 Series B Bonds. See "TAX MATTERS" herein.

\$90,000,000
City of Gainesville, Florida
Variable Rate
Utilities System Revenue Bonds
2008 Series B
(CUSIP No.)



Dated: Date of Delivery

Due: October 1, 2038

The Variable Rate Utilities System Revenue Bonds, 2008 Series B (the "2008 Series B 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 2008 Series B Bonds. Individual purchases of 2008 Series B Bonds will be made in book-entry form only, in the Authorized Denominations referred to herein. See "THE 2008 SERIES B BONDS – Book-Entry Only System" herein.

The 2008 Series B Bonds will bear interest at variable rates, as more fully described herein. Initially, the 2008 Series B Bonds will bear interest at Daily Rates, determined as described herein. While the 2008 Series B Bonds bear interest at Daily 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 2008 Series B Bonds may be changed at the election of the City of Gainesville, Florida (the "City").

The 2008 Series B Bonds are subject to mandatory and optional redemption prior to maturity and to optional and mandatory tender for purchase as set forth herein.

Liquidity support in connection with tenders for purchase of 2008 Series B Bonds (in an amount equal to the principal amount thereof plus 36 days' interest thereon computed at a rate per annum of 12 percent and on the basis of a 365-day year) will be provided initially by The Bank of New York (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 2008 Series B 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 February 13, 2011. The purchase price of 2008 Series B 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 2008 Series B Bonds are being issued by the City to (i) to pay costs of acquisition and construction of the City's utilities system and (ii) to pay the costs of issuance related to the 2008 Series B Bonds, as more particularly described herein.

The 2008 Series B Bonds are direct and special obligations of the City and do not constitute a general indebtedness or a pledge of the full faith and credit or the taxing power of the City within the meaning of any constitutional or statutory provision or limitation of indebtedness, nor constitute a lien on any property of or in the City other than the Trust Estate as provided in the Resolution (as such terms are defined herein).

PRICE – 100%

The 2008 Series B 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 2008 Series B Bonds in definitive form will be available for delivery to DTC in New York, New York on or about February , 2008.

GOLDMAN, SACHS & CO.

February , 2008

CITY OF GAINESVILLE, FLORIDA

CITY OFFICIALS

Pegeen 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..... General Manager for Utilities
Karen C. Alford..... Interim 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..... Chief Financial Officer, Utilities
Edward J. Regan, P.E. Assistant General Manager – Strategic Planning
Raymond O. Manasco, Jr., Esq. Utilities Attorney
Kathy E. Viehe Assistant General Manager – Customer Support Services

CONSULTANTS

Orrick, Herrington & Sutcliffe LLP
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 2008 Series B 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 2008 Series B 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.

Other than with respect to information concerning The Bank of New York ("Bank") contained under the caption "THE BANK" herein, none of the information in this Official Statement has been supplied or verified by the Bank and the Bank makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information or (ii) the validity of the 2008 Series B Bonds.

THE UNDERWRITER HAS ADVISED THE CITY THAT IN CONNECTION WITH THE OFFERING OF THE 2008 SERIES B BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2008 SERIES B 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 2008 Series B 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 2008 Series B Bonds or as indicated on the cover page of this Official Statement.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY STATEMENT	1
General	1
The Utilities System.....	2
No Continuing Disclosure.....	3
Forward-Looking Statements and Associated Risks	3
Other	3
PLAN OF FINANCE.....	4
SOURCES AND USES OF FUNDS.....	5
OUTSTANDING DEBT	5
ADDITIONAL FINANCING REQUIREMENTS.....	7
SECURITY FOR THE BONDS.....	7
Pledge Under the Resolution	7
Rate Covenant.....	8
Additional Bonds; Conditions to Issuance.....	8

TABLE OF CONTENTS

Flow of Funds Under the Resolution	9
THE 2008 SERIES B BONDS	9
General	9
Interest on the 2008 Series B Bonds	11
Interest Rates and Interest Modes; Determination of Interest Rates.....	12
Change in Interest Modes	13
Optional Tender for Purchase	14
Book-Entry Only System.....	23
THE INITIAL LIQUIDITY FACILITY	27
THE BANK	29
THE CITY	29
General.....	29
Government.....	30
THE UTILITIES SYSTEM	30
General.....	30
Management of the System.....	31
Labor Relations.....	32
Permits, Licenses and Approvals.....	32
THE ELECTRIC SYSTEM.....	32
Service Area.....	32
Customers	33
Energy Sales.....	33
Demand-Side Management.....	36
Green Power.....	37
Energy Supply System.....	37
Transmission System, Interconnections and Interchange Agreements.....	42
Electrical Distribution.....	43
Capital Improvement Program.....	43
Loads and Resources.....	43
Mutual Aid Agreement For Extended Generation Outages.....	44
Future Power Supply.....	44
THE NATURAL GAS SYSTEM.....	46

TABLE OF CONTENTS

Service Area.....	47
Customers	47
Natural Gas Supply.....	47
Natural Gas Distribution.....	48
Manufactured Gas Plant.....	48
Capital Improvement Program.....	48
THE WATER SYSTEM.....	49
Service Area.....	49
Customers	49
Water Treatment and Supply	50
Transmission and Distribution.....	50
Capital Improvement Program.....	51
THE WASTEWATER SYSTEM.....	51
Service Area.....	51
Customers	51
Treatment.....	52
Wastewater Collection.....	53
Capital Improvement Program.....	53
THE TELECOMMUNICATIONS SYSTEM.....	53
Service Area.....	54
Services Provided.....	54
Customers	55
Description of Facilities.....	55
Capital Improvement Program.....	56
RATES.....	56
General.....	56
Electric System	57
Natural Gas System.....	61
Water and Wastewater System	64
SUMMARY OF COMBINED NET REVENUES.....	69
MANAGEMENT’S DISCUSSION OF SYSTEM OPERATIONS.....	70
Results of Operations.....	70

TABLE OF CONTENTS

Transfers to General Fund	72
Investment Policies	73
Competition.....	74
Federal Excise Tax in LILO/SILO Transaction.....	75
FACTORS AFFECTING THE UTILITY INDUSTRY	76
General.....	76
Environmental and Other Natural Resource Regulations	76
Air Emissions.....	77
Storage Tanks.....	77
Nuclear Waste Disposal Regulation	78
Superfund and Remediation Sites.....	78
Water Use Restrictions	79
Wholesale and Retail Electric Restructuring	79
2005 Florida Communications Legislation.....	80
INSURANCE.....	81
TAX MATTERS.....	82
RATINGS	85
LITIGATION.....	86
APPROVAL OF LEGAL PROCEEDINGS.....	86
INDEPENDENT AUDITORS.....	87
UNDERWRITING	87
FLORIDA SECURITIES LAWS	87
MISCELLANEOUS	87
APPENDIX A – Audited Financial Statements	A-1
APPENDIX B – General Information Regarding the City of Gainesville and Alachua County.....	B-1
APPENDIX C – Summary of Certain Provisions of the Resolution.....	C-1
APPENDIX D – Certain Definitions Applicable to the 2008 Series B Bonds	D-1
APPENDIX E – Debt Service Requirements.....	E-1
APPENDIX F – Proposed Form of Opinion of Bond Counsel.....	F-1

(THIS PAGE INTENTIONALLY LEFT BLANK)

Official Statement
relating to
\$90,000,000
City of Gainesville, Florida
Variable Rate
Utilities System Revenue Bonds
2008 Series B

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 \$90,000,000 Variable Rate Utilities System Revenue Bonds, 2008 Series B (the “2008 Series B 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 2008 Series B Bonds (a) to provide funds for the payment of the cost of acquisition and construction of certain improvements to the electric system, natural gas system, water system, wastewater system and telecommunications system owned by the City and operated as a single combined public utility (the “System”) and (b) to pay costs of issuance of the 2008 Series B Bonds. See “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 2008 Series B Bonds are being issued pursuant to the Utilities System Revenue Bond Resolution adopted by the City on June 6, 1983, as amended, supplemented and restated (the “Resolution”), including as supplemented by the Twentieth Supplemental Utilities System Revenue Bond Resolution (the “Twentieth Supplemental Resolution”) authorizing the 2008 Series B Bonds which was adopted by the City on January 28, 2008; 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 2008 Series B Bonds will be payable from and secured on a parity with all other bonds issued under the Resolution by a pledge of and lien on the Trust Estate (hereinafter defined). As of October 1, 2007, there were \$535,495,000 aggregate principal amount of bonds outstanding under the Resolution. The 2008 Series B Bonds, the bonds to be outstanding after the date of issuance of the 2008 Series B 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 2008 Series B Bonds, see “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 2008 Series B Bonds subject to certain conditions provided in the Resolution.

The purchase price for 2008 Series B Bonds tendered or deemed tendered for purchase (see “THE 2008 SERIES B BONDS – Optional Tender for Purchase”, “– Mandatory Tender for Purchase” and “– Remarketing and Purchase Price” herein) is payable solely from the sources described under the caption “THE 2008 SERIES B 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 2008 Series B Bonds initially will be provided by The Bank of New York (the “Bank”), pursuant to a standby bond purchase agreement, dated as of February 1, 2008, between the City and the Bank (the “Initial Liquidity Facility”). The obligation of the Bank to purchase 2008 Series B 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 February 13, 2011 (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 Twentieth Supplemental Resolution contains provisions for obtaining a Substitute Liquidity Facility (hereinafter defined) in substitution for the Liquidity Facility then in effect. See “THE 2008 SERIES B BONDS – Substitution of Liquidity Facilities” herein.

Goldman, Sachs & Co. will act as the initial remarketing agent for the 2008 Series B Bonds and will enter into a remarketing agreement with the City, dated as of February 1, 2008 (the “Remarketing Agreement”). U.S. Bank Trust National Association, New York, New York, will act as the initial tender agent for the 2008 Series B Bonds (in such capacity, the “Tender Agent”) and will enter into a tender agency agreement with the City, dated as of February 1, 2008 (the “Tender Agency Agreement”).

In addition to its Outstanding Bonds, as of October 1, 2007, the City also had outstanding \$62,000,000 in aggregate principal amount of subordinated indebtedness (“Subordinated Indebtedness”) issued under the Subordinated Utilities System Revenue Bond Resolution adopted by the City on January 26, 1989, as heretofore amended, supplemented and restated. Subordinated Indebtedness is subordinate in all respects to Bonds issued under the Resolution.

The Utilities System

For the fiscal year ended September 30, 2007, the electric system, which served an average of 89,912 residential, industrial and commercial customers (representing approximately 76% of the population of the County), accounted for 71% 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, 2007, the System’s fuel mix was as follows: coal 67.3%; natural gas 24.1%; nuclear 5.1%; and oil 3.4%, as a percentage of net generation. For the fiscal year ended September 30, 2007, the System’s fuel mix was as follows: coal 69.4%; natural gas 23.7%; nuclear 5.4%; and oil 1.5%, as a percentage of net generation.

The natural gas distribution system, which served an average of 33,125 customers during the fiscal year ended September 30, 2007, accounted for 9% of gross revenues and 5% of net revenues and is comprised of 723 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 67,774 customers during the fiscal year ended September 30, 2007 accounted for 8% of gross revenues and 14% of net revenues. The water system includes a water treatment plant having a nominal capacity of 54 million gallons per day (“Mgd”), water supply wells and distribution facilities.

The wastewater system, which served an average of 62,005 customers during the fiscal year ended September 30, 2007 accounted for 9% of gross revenues and 17% of net revenues. The wastewater system consists of two major wastewater treatment plants having a combined capacity of 22.4 Mgd annual average daily flow (“AADF”), force mains and gravity wastewater collection sewers.

The telecommunications system (“GRUCom”) interconnects four interexchange carriers, the local exchange carrier and six wireless (cellular telephone) carriers and consists of 301 miles of fiber optic cable, 13 antenna sites, and associated network equipment. As of September 30, 2007, GRUCom provided broadband data and Internet services to 5,861 residential and commercial customers and provides public safety radio to all the major public safety agencies in the County. During the fiscal year ended September 30, 2007, GRUCom accounted for 3% of gross revenues and 3% of net revenues.

No Continuing Disclosure

The City has not committed to provide continuing disclosure with respect to the 2008 Series B Bonds. The 2008 Series B Bonds are not subject to the provisions of the Securities and Exchange Commission Rule 15c2-12(b)(5).

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 2008 Series B Bonds are set forth in “CERTAIN DEFINITIONS APPLICABLE TO THE 2008 SERIES B BONDS” in APPENDIX D hereto.

There follows in this Official Statement brief descriptions of the security for the Bonds, the 2008 Series B 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 FINANCE

The 2008 Series B Bonds will be issued (a) to provide funds for the payment of the cost of acquisition and construction of certain improvements to the System and (b) to pay costs of issuance of the 2008 Series B Bonds. The 2008 Series B Bonds will primarily be used to provide funds for the construction of a combined heat and power facility and to allow the City to meet Florida's Total Maximum Daily Load regulations adopted by the Florida Department of Environmental Protection Florida Department of Environmental Protection ("FDEP"). See "THE ELECTRIC SYSTEM" and "THE WASTEWATER SYSTEM" herein.

Concurrently with the issuance of the 2008 Series B Bonds the City expects to issue \$[000,000,000] in aggregate principal amount of taxable Bonds (the "Taxable 2008 Series A Bonds"). The Taxable 2008 Series A Bonds will be issued (a) to provide funds for the payment of the cost of acquisition and construction of certain improvements to the System, including the installation of emission controls on Deerhaven 2, the System's only coal-fired unit and (b) to pay costs of issuance of the Taxable 2008 Series A Bonds. See "FACTORS AFFECTING THE UTILITY INDUSTRY" herein.

For a discussion of the City's additional financing requirements for the System, see "ADDITIONAL FINANCING REQUIREMENTS" herein.

In anticipation of the issuance of the 2008 Series B Bonds, in October 2006, the City entered into two separate forward-starting floating-to-fixed rate interest rate swap transactions of \$58,500,000 and \$31,500,000 (collectively, the "2008 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 2008 Floating-to-Fixed Swap Transaction has an effective date that corresponds to the expected date of issuance of the 2008 Series B Bonds. The term of each 2008 Floating-to-Fixed Swap Transaction is identical to the anticipated term of the 2008 Series B Bonds, and the aggregate notional amounts of the 2008 Floating-to-Fixed Swap Transactions will amortize at the same times and in the same amounts as the 2008 Series B Bonds are expected to be amortized. Each 2008 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 2008 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.

Simultaneously with the issuance of the 2008 Series B Bonds, the City intends to designate each 2008 Floating-to-Fixed Swap Transaction as a "Qualified Hedging Contract" within the meaning of the Resolution, and to provide (a) that net payments owed by it under such 2008 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 2008 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.

SOURCES AND USES OF FUNDS

The sources and uses of funds with respect to the 2008 Series B Bonds are estimated to be as follows:

Sources of Funds

Principal Amount of 2008 Series B Bonds.....	\$
Plus Original Issue Premium (net of Discount).....	_____
Total Sources	\$ _____

Uses of Funds

Deposit to Construction Fund*	\$
Payment of costs of issuance, including underwriters' discount.....	_____
Total Uses	\$ _____

* Deposit to pay for costs of acquisition and construction of the System.

OUTSTANDING DEBT

The following table sets forth the outstanding debt of the City issued for the System as of October 1, 2007.

Outstanding Debt of the City Issued for the System

	As of October 1, 2007		
Description	Interest Rates	Due Dates (October 1)	Principal Outstanding ⁽¹⁾
Utilities System Revenue Bonds			
Series 1983.....	6.00%	2014	\$ 4,675,000
1992 Series B	6.50 – 7.50%	2008-2013	24,630,000
1996 Series A	5.75%	2008-2009	7,720,000
2003 Series A	4.625 – 5.25%	2015-2033	7,525,000
2003 Series B (federally taxable)	4.40%	2013	4,960,000
2003 Series C	2.75 – 5.00%	2008-2013	85,380,000
2005 Series A	4.75 – 5.00%	2021-2036	91,820,000
2005 Series B (federally taxable)	5.14 – 5.31% ⁽²⁾⁽⁴⁾	2015-2021	60,840,000
2005 Series C	Variable ⁽²⁾⁽⁵⁾	2026	55,135,000
2006 Series A	Variable ⁽²⁾⁽⁶⁾	2026	53,305,000
2007 Series A	Variable ⁽²⁾⁽⁷⁾	2036	139,505,000
Total Utilities System Revenue Bonds			\$535,495,000
			.00
Subordinated Utilities System Revenue Bonds			
2002 Series A.....	Variable ⁽²⁾⁽⁸⁾	2017	\$22,000,000
2002 Series B.....	Variable	2032	40,000,000
Total Subordinated Bonds			\$62,000,000

(footnotes begin on following page)

- (1) Principal Outstanding excludes the Taxable 2008 Series A Bonds and the 2008 Series B Bonds.
- (2) See Note 4 to the audited financial statements for the fiscal years ended September 30, 2007 and 2006 included as APPENDIX A to this Official Statement for a discussion of the various risks borne by the City relating to interest rate swap transactions.
- (3) See "PLAN OF FINANCE" herein for a description of a floating-to-fixed rate interest rate swap transaction entered into by the city in contemplation of the issuance of the 2008 Series B Bonds.
- (4) 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).
- (5) 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).
- (6) 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).
- (7) 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).
- (8) 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 "Aa3" from Moody's and a financial program rating of "AA-" 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.

ADDITIONAL FINANCING REQUIREMENTS

The System's current six-year capital improvement program, as shown in the table below, requires a total of approximately \$596,043,000 in capital expenditures and \$9,066,000 for issuance costs between 2008 and 2013, inclusive, for total capital improvement program costs of \$605,109,000. Such amount is expected to be funded in part from remaining construction funds from previous financings, construction fund interest earnings, Revenues, and approximately \$453,000,000 of future additional Bonds, including the Taxable 2008 Series A Bonds and the 2008 Series B Bonds, and/or Subordinated Indebtedness (including additional commercial paper notes) that the System expects to issue in 2008, 2009, 2011, and 2013. The ongoing and planned projects included in the capital improvement program are discussed in further detail herein for the electric, natural gas, water, wastewater and telecommunications systems, respectively.

Summary of Capital Improvement Program

	Fiscal Years ending September 30,						2008-2013
	2008	2009	2010	2011	2012	2013	
Cash Balance October 1,	\$ 62,444,000	\$ 97,183,000	\$86,974,000	\$ 3,325,000	\$57,604,000	\$ 2,162,000	\$309,692,000
Source of Funds:							
Bond Financing	205,000,000	104,000,000		55,400,000		88,900,000	453,300,000
Revenues	28,246,000	23,200,000		55,415,000		71,685,000	178,546,000
Other Financing Sources		5,318,000	6,415,000			-	11,733,000
Interest Earnings	3,556,000	1,317,000	27,000	1,285,000	30,000	3,305,000	9,520,000
Total Sources	\$299,246,000	\$ 231,018,000	\$93,416,000	\$115,425,000	\$57,634,000	\$166,052,000	\$653,099,000
Use of Funds:							
Construction Projects:							
Electric	\$154,931,000	\$97,812,000	\$47,958,000	\$31,347,000	\$26,402,000	\$24,415,000	\$382,865,000
Gas	5,287,000	11,669,000	12,917,000	4,002,000	4,091,000	4,249,000	42,215,000
Water	10,106,000	12,072,000	9,807,000	7,896,000	7,998,000	8,478,000	56,357,000
Wastewater	18,812,000	14,981,000	16,012,000	9,128,000	11,403,000	10,829,000	81,165,000
GRUCom	8,827,000	5,430,000	3,397,000	4,340,000	5,578,000	5,869,000	33,441,000
Total Construction	\$197,963,000	\$141,964,000	\$90,091,000	\$56,713,000	\$55,472,000	\$53,840,000	\$596,043,000
Issuance Costs	4,100,000	2,080,000	-	1,108,000	-	1,778,000	9,066,000
Total Uses	202,063,000	144,044,000	90,091,000	57,821,000	55,472,000	55,618,000	605,109,000
Cash Balance September 30,	\$ 97,183,000	\$ 86,974,000	\$ 3,325,000	\$57,604,000	\$ 2,162,000	\$110,434,000	\$357,682,000

SECURITY FOR THE BONDS

Pledge Under the Resolution

All Bonds issued under the Resolution, including the 2008 Series B Bonds, are direct and special obligations of the City payable solely from and secured as to the payment of the principal and premium, if any, and interest thereon, in accordance with their terms and the provisions of the Resolution by (i) proceeds of the sale of the 2008 Series B 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 2008 Series B Bonds do not constitute a general indebtedness or a pledge of the full faith and credit of the City within the meaning of any constitutional or statutory provision or limitation of indebtedness. No holder of the 2008 Series B Bonds will have the right, directly or indirectly, to require or compel the exercise of the ad valorem taxing power of the City for the payment of the principal or interest on the 2008 Series B Bonds or the making of any payments under the Resolution. The 2008 Series B Bonds and the obligations evidenced thereby do not constitute a lien on any property of or in the City, other than the Trust Estate. The City may issue, pursuant to the Resolution, additional Bonds on a parity basis with the 2008 Series B Bonds. See "ADDITIONAL FINANCING REQUIREMENTS" herein for a discussion of the City's present intentions with respect to the issuance of additional Bonds.

Rate Covenant

The City has covenanted in the Resolution that it will at all times use its best efforts to operate the System properly and in an efficient and economical manner and will at all times establish and collect rates, fees and other charges for the use or the sale of the output, capacity or services of the System so that the Revenues of the System are expected to yield Net Revenues which shall be equal to at least 1.25 times the Aggregate Debt Service for the forthcoming 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 2008 SERIES B BONDS

General

The 2008 Series B Bonds will be issued in the aggregate principal amount of \$90,000,000, will be dated the date of their original issuance and will mature on October 1, 2038. Upon initial issuance, the 2008 Series B 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 2008 Series B 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 2008 Series B Bonds may be changed from time to time to another Interest Mode. As more fully described under the caption "Interest Rates and Interest Modes; Determination of Interest Rates" below, (a) while the 2008 Series B Bonds are in the Daily Mode, such Bonds will bear interest at Daily Rates, (b) while the 2008 Series B Bonds are in the Weekly Mode, such Bonds will bear interest at Weekly Rates, (c) while the 2008 Series B Bonds are in the Flexible Mode, such Bonds will bear interest at Flexible Rates, (d) while the 2008 Series B Bonds are in the Term Mode, such Bonds will bear interest at Term Rates and (e) while the 2008 Series B Bonds are in the Fixed Mode, such Bonds will bear interest at the Fixed Rate. The Twentieth Supplemental Resolution also provides that the 2008 Series B Bonds may be changed to a "Dutch auction" Interest Mode (referred to in the Twentieth Supplemental Resolution as the "Auction Mode"), but requires that the City adopt an amendment to the Twentieth Supplemental Resolution prior to the date on which such change is to be effective, to add to the Twentieth 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 2008 Series B 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 2008 Series B Bonds be changed to the Auction Mode, a remarketing memorandum or remarketing circular will be distributed describing the 2008 Series B Bonds during the Auction Mode.

The 2008 Series B Bonds will be issuable only in fully registered form in the Authorized Denominations. "Authorized Denominations" means (i) for 2008 Series B Bonds bearing interest at a Daily Rate, a Weekly Rate or a Flexible Rate, \$100,000 or any integral multiple of \$5,000 in excess thereof and (ii) for 2008 Series B Bonds bearing interest at a Term Rate or a Fixed Rate, \$5,000 or any integral multiple thereof. Upon initial issuance, the 2008 Series B 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 2008 Series B 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 2008 Series B Bonds (or, for so long as the 2008 Series B 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 2008 Series B Bonds (or portions thereof or beneficial ownership interests therein) tendered or deemed tendered for purchase is payable solely from the sources described under the caption "Remarketing and Purchase Price" below, and is not payable from any funds of the City.

Liquidity support in connection with tenders for purchase of the 2008 Series B 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 Twentieth 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 2008 Series B Bonds will be payable at the principal office of the Paying Agent. Except as described below, interest on the 2008 Series B 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 2008 Series B Bonds, by wire transfer on such Interest Payment Date to such Holder thereof upon written notice from such Holder to the Paying Agent containing the wire transfer address (which shall be in the continental United States) to which such Holder wishes to have such wire directed and any other necessary instructions, if such written notice is received by the Paying Agent not less than five (5) days prior to the related Record Date, it being understood that such notice may refer to multiple interest payments. So long as the 2008 Series B 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 2008 Series B Bonds will be made to DTC.

Goldman, Sachs & Co. has been appointed as the initial Remarketing Agent for the 2008 Series B Bonds by the City. Subject to the terms of the Remarketing Agreement, the Remarketing Agent will determine the interest rates on the 2008 Series B Bonds and will remarket 2008 Series B Bonds tendered or required to be tendered for purchase on a best efforts basis. The Remarketing Agent may resign upon fifteen (15) days' notice or be removed at any time by the City upon fifteen (15) days' notice.

U.S. Bank Trust National Association, New York, New York has been appointed as the initial Tender Agent for the 2008 Series B Bonds by the City. The Tender Agent may be removed or replaced by the City.

For definitions of certain terms applicable to the 2008 Series B Bonds that are not otherwise defined herein, see "CERTAIN DEFINITIONS APPLICABLE TO THE 2008 SERIES B BONDS" in APPENDIX D hereto.

Interest on the 2008 Series B Bonds

Interest on the 2008 Series B Bonds will be payable on each Interest Payment Date therefor. Holders of the 2008 Series B Bonds other than the Bank will be paid interest for the applicable Interest Period (as defined in APPENDIX D hereto) only in the amount that would have accrued at the applicable 2008 Series B Bond Rate (as defined in APPENDIX D hereto) or Rates in effect during the applicable Interest Accrual Period (as defined in APPENDIX D hereto), regardless of whether any of such 2008 Series B Bonds was a 2008 Series B Bank Bond (as defined in APPENDIX D hereto) during any portion of such Interest Accrual Period.

The Interest Payment Dates with respect to each 2008 Series B Bond (other than any 2008 Series B Bank Bond) are as follows: (a) each date on which the 2008 Series B Bonds are subject to mandatory tender for purchase (see "Mandatory Tender for Purchase" below); (b) for 2008 Series B Bonds in the Daily Mode or the Weekly Mode, the first Business Day of each calendar month; (c) for 2008 Series B Bonds in the Flexible Mode, the first Business Day following the end of each Interest Period with respect thereto; (d) for 2008 Series B Bonds in the Term Mode or the Fixed Mode, semi-annually on each April 1 and October 1 commencing on the first April 1 or October 1 occurring after the conversion to such Interest Mode; *provided, however*, that if such first date occurs less than three (3) months after such conversion, 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 2008 Series B Bonds at the relevant Record Date. The "Record Date" (a) with respect to an Interest Payment Date for 2008 Series B 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 2008 Series B 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 2008 Series B 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 2008 Series B Bonds (other than 2008 Series B 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 and (ii) will not cause the interest on the 2008 Series B Bonds to become includable in gross income for federal income tax purposes and (b) if the 2008 Series B 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 2008 Series B 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 2008 Series B Bonds in the Term or Fixed Mode will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Interest Rates and Interest Modes; Determination of Interest Rates

The 2008 Series B Bonds initially will be in the Weekly Mode and will bear interest at Weekly Rates until such time (if any) as the 2008 Series B Bonds are changed to the Auction Mode, the Daily Mode, the Flexible Mode, the Term Mode or the Fixed Mode. The interest rate to be in effect with respect to a particular 2008 Series B Bond (or beneficial ownership interest therein) for a particular period of time as described below (an "Interest Period") will be determined by the Remarketing Agent as the minimum interest rate necessary in its judgment to be borne by such 2008 Series B Bond (or beneficial ownership interest therein) for the relevant Interest Period to enable the Remarketing Agent to remarket such 2008 Series B Bond (or beneficial ownership interest therein) on the Rate Adjustment Date (as defined in APPENDIX D hereto) therefor at a price (without regard to accrued interest) equal to 100 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 2008 Series B Bond (or beneficial ownership interest therein) is referred to as a "Rate Determination Date."

If for any reason the Remarketing Agent fails to determine the Market Rate for any 2008 Series B Bond (or beneficial ownership interest therein) on the Rate Determination Date therefor, or any Market Rate determined by the Remarketing Agent is determined by a court of competent jurisdiction to be invalid or unenforceable, then, commencing on such Rate Determination Date or the date with respect to which such court's determination shall be effective, as the case may be, such 2008 Series B 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 The Bond Market Association and effective for a particular Rate Determination Date. If the SIFMA Index ceases to be published, it will be replaced by the most comparable published index designated by the Remarketing Agent, or in the absence of such designation, any other dealer bank or broker-dealer competent in such matters and chosen by the City.

The various interest rates for the 2008 Series B Bonds will be determined as follows, and will be effective for the periods described below:

Daily Rate. While in the Daily Mode, the 2008 Series B Bonds will bear interest at Daily Rates determined by the Remarketing Agent as the Market Rate therefor not later than 12:30 p.m., New York City time, on each Business Day. Each Daily Rate will remain in effect for the Interest Period beginning on the Business Day of its determination and ending on the day preceding the next succeeding Business Day.

Weekly Rate. While in the Weekly Mode, the 2008 Series B Bonds will bear interest at Weekly Rates determined by the Remarketing Agent as the Market Rate for each Interest Period during such Mode. Each Interest Period during the Weekly Mode will commence on a Wednesday and extend through Tuesday of the following week. The Weekly Rate for each such Interest Period will be determined by the Remarketing Agent not later than 5:00 p.m., New York City time, on Tuesday of each week, or if such day is not a Business Day, on the next preceding

Business Day (or such other day as may be specified by the Remarketing Agent after notice to the Tender Agent and the Holders of the 2008 Series B Bonds).

Flexible Rate. While in the Flexible Mode, the 2008 Series B Bonds (or beneficial ownership interests therein) will bear interest at Flexible Rates and for Interest Periods determined by the Remarketing Agent. The duration of each Interest Period for each 2008 Series B Bond (or beneficial ownership interest therein) in the Flexible Mode will be the period determined by the Remarketing Agent to be the Interest Period which, in its judgment, will produce the greatest likelihood of the lowest overall debt service costs on the 2008 Series B Bonds prior to the maturity thereof, given prevailing market conditions, and will be a period of not less than one (1) nor more than 270 days in length and will end on a day preceding a Business Day; *provided, however*, that no Interest Period during the Flexible Mode may extend beyond the fifth (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 2008 Series B Bonds (or beneficial ownership interests therein) may have different Interest Periods. The Remarketing Agent will determine the Flexible Rates and Interest Periods for the 2008 Series B Bonds (or beneficial ownership interests therein) in the Flexible Mode not later than 12:30 p.m., New York City time, on the first Business Day in each Interest Period, and each Flexible Rate will be the Market Rate determined by the Remarketing Agent for the relevant Interest Period.

Term Rate. The City may designate a Term Mode for the 2008 Series B Bonds with an Interest Period of any duration specified by the City that is longer than a year and ends on the last day of any March or September; *provided, however*, that no Interest Period during a Term Mode may extend beyond the fifth (5th) Business Day preceding the Liquidity Facility Expiration Date of the Liquidity Facility then in effect. During each such Interest Period, the 2008 Series B Bonds will bear interest at the Term Rate for such Interest Period, which will be determined by the Remarketing Agent as the Market Rate therefor on any date designated by the Remarketing Agent which is not more than 35 days before, nor later than the last Business Day preceding, such Interest Period.

Fixed Rate. The City may direct that the interest rate on the 2008 Series B Bonds be fixed to the maturity date thereof. The Fixed Rate to be borne by the 2008 Series B Bonds to their maturity will be determined by the Remarketing Agent as the Market Rate therefor on any date designated by the Remarketing Agent which is not more than 35 days before, nor later than the last Business Day preceding, the effective date of such Fixed Rate.

The determination by the Remarketing Agent of each interest rate for the 2008 Series B Bonds shall be conclusive and binding on the City, the Tender Agent, the Remarketing Agent, the Bank and the owners of the 2008 Series B Bonds. The interest rates in effect for the 2008 Series B Bonds from time to time will be available to each owner of the 2008 Series B Bonds who requests such information, by telephone or in writing (including by facsimile or other electronic means), (a) if the 2008 Series B Bonds are in the Daily Mode, the Weekly Mode or the Flexible Mode, from the Remarketing Agent and (b) if the 2008 Series B Bonds are in the Term Mode or the Fixed Mode, from the Tender Agent.

Change in Interest Modes

If the 2008 Series B Bonds are in any Interest Mode other than the Fixed Mode, the City may cause the 2008 Series B 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 2008 Series B Bonds (or beneficial ownership interests therein) then in effect or any Business Day thereafter. A change from the Term Mode to any other Interest Mode or to an Interest Period of different duration may be made on any day on which the 2008 Series B 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 2008 Series B Bonds will be subject to mandatory tender for purchase on the date on which the proposed change is to occur (see “Mandatory Tender for Purchase” below). Any date on which a change to a different Interest Mode or to an Interest Period of different duration in the Term Mode is proposed to occur is referred to as a “Mode Adjustment Date.”

Any change in an Interest Mode or an Interest Period in the Term Mode is subject to (a) receipt by the Tender Agent and the Remarketing Agent on the first day of such Interest Mode or Interest Period, as the case may be, of an opinion of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that the change in Interest Mode or Interest Period, as the case may be, will not adversely affect the exclusion of interest on any 2008 Series B Bond from gross income for federal income tax purposes and is authorized by applicable law and (b) the Liquidity Facility then in effect being in an amount at least equal to the Liquidity Facility Requirement (as defined in APPENDIX D hereto) applicable to the Interest Mode to become effective. If either of the above conditions is not met, then the 2008 Series B Bonds will remain in the Interest Mode which they are then in or remain subject to the same Interest Period as then is applicable, as the case may be; *provided, however*, that if the proposed change was from the Term Mode to any other Interest Mode and the City causes to be delivered to the Tender Agent and the Remarketing Agent an opinion of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that such change in Interest Mode will not adversely affect the exclusion of interest on any 2008 Series B Bond from gross income for federal income tax purposes and is authorized by applicable law, then, so long as the Liquidity Facility then in effect (taking into account any amendments being made thereto in connection therewith) shall provide that the amount available to be drawn or advanced thereunder shall be at least equal to the principal amount of the Outstanding 2008 Series B Bonds (other than 2008 Series B Bank Bonds) plus 36 days’ interest thereon computed at a rate per annum equal to the Maximum Rate and on the basis of a 365-day year, the 2008 Series B Bonds will be changed to the Weekly Mode. In any such event, the 2008 Series B Bond will remain subject to mandatory tender to the same extent as if the change in Interest Mode or Interest Period, as the case may be, took place.

When a change in Interest Mode is to be made, the Tender Agent is required to give notice of the proposed change to the Holders of the 2008 Series B Bonds (a) if the 2008 Series B 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 2008 Series B 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 2008 Series B Bonds will be subject to mandatory tender for purchase on the proposed Mode Adjustment Date.

Optional Tender for Purchase

2008 Series B 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 2008 Series B 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. 2008 Series B Bonds (or portions thereof or beneficial ownership interests therein) in the Daily Mode may be tendered for purchase on any Business Day, upon irrevocable notice of tender given to the Tender Agent as described below by telephone, facsimile or other electronic means no later than 11:00 a.m., New York City time, on the Purchase Date.

Weekly Mode. 2008 Series B Bonds (or portions thereof or beneficial ownership interests therein) in the Weekly Mode may be tendered for purchase on any Business Day, upon irrevocable notice of tender given to the Tender Agent as described below in writing (including by facsimile or other electronic means) no later than 5:00 p.m., New York City time, on a Business Day at least seven calendar days prior to the Purchase Date.

Each notice of exercise of the election to have a 2008 Series B Bond (or portion thereof or beneficial ownership interest therein) purchased will be irrevocable and effective upon receipt, and must specify the principal amount of the 2008 Series B Bond (or portion thereof or beneficial ownership interest therein) to be purchased, the Purchase Date and the name of the Holder of the 2008 Series B Bond (or, if the 2008 Series B 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 2008 Series B Bonds are subject to such book-entry only system of registration and transfer, by the Beneficial Owner thereof or such Beneficial Owner’s attorney duly authorized in writing).

Holders (or, if applicable, Beneficial Owners) of 2008 Series B Bonds (or portions thereof or beneficial ownership interests therein) that have elected to require purchase as described above will be deemed, by such election, to have agreed irrevocably to sell the 2008 Series B Bonds (or portions thereof or beneficial ownership interests therein) to any purchaser determined in accordance with the provisions of the Twentieth 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 2008 Series B Bonds (or portions thereof) to the office of the Tender Agent by 12:00 p.m., New York City time, on the Purchase Date, in each such case, endorsed in blank (or accompanied by a bond power executed in blank). See “Remarketing and Purchase Price” below.

Mandatory Tender for Purchase

The 2008 Series B Bonds must be tendered for purchase, from and to the extent of the funds described under the caption “Remarketing and Purchase Price” below, at the Purchase Price therefor, on the following dates (each such date being referred to herein as a “Purchase Date”):

Expiration of Liquidity Facility: on the fifth (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 2008 Series B 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 Twentieth Supplemental Resolution, written evidence from each Rating Agency (as defined in APPENDIX D hereto) then rating the 2008 Series B Bonds to the effect that such Rating Agency has reviewed the proposed Substitute Liquidity Facility and that the substitution of such Substitute Liquidity Facility for the Liquidity Facility then in effect will not

result in a withdrawal, suspension or reduction in such Rating Agency's ratings on the 2008 Series B Bonds, then the 2008 Series B Bonds shall not be subject to mandatory tender for purchase on the Substitution Date,

Interest Mode or Interest Period Changes: on any Mode Adjustment Date designated by an authorized officer of the City pursuant to the provisions of the Twentieth 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 2008 Series B Bonds are in (a) the Flexible Mode or (b) the Term Mode,

City Option in Term Mode: at the option of the City while the 2008 Series B Bonds are in the Term Mode, on any day on which such 2008 Series B 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 Twentieth Supplemental Resolution or the Resolution: on (a) any Business Day while the 2008 Series B Bonds are in the Daily Mode or Weekly Mode, (b) any Rate Adjustment Date while the 2008 Series B Bonds are in the Flexible Mode, or (c) any Business Day on which the 2008 Series B 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 2008 Series B Bonds are in the Term Mode, in any such case, that is at least fifteen (15) days following delivery to the Notice Parties of a certificate of an authorized officer of the City to the effect that the City is causing the 2008 Series B Bonds to become subject to mandatory tender in order to enable any Supplemental Resolution amending the Twentieth 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 2008 Series B 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 2008 Series B Bonds.

Except in the case of (a) a Rate Adjustment Date for 2008 Series B Bonds in the Flexible Mode and (b) a mandatory tender described under "*Liquidity Facility Default*" above, the Tender Agent will give notice of mandatory tender for purchase to each Holder of the 2008 Series B Bonds by mail, first-class postage prepaid, (i) if the 2008 Series B 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 2008 Series B 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 2008 Series B Bonds by mail, first-class postage prepaid, as promptly as practicable following receipt by it of the notice from the Bank referred to under "*Liquidity Facility Default*" above. While the 2008 Series B 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 2008 Series B Bonds (or beneficial ownership interests therein) will be deemed to have agreed irrevocably to sell 2008 Series B Bonds (or portions thereof or beneficial ownership interests therein) subject to mandatory tender for purchase to any purchaser determined in accordance with the provisions of the Twentieth 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 2008 Series B Bonds (or portions thereof) to the office of the Tender Agent by 12:00 p.m., New York City time, on the Purchase Date, endorsed in blank (or accompanied by a bond power executed in blank). See “Remarketing and Purchase Price” below.

Remarketing and Purchase Price

In the event that notice is received of any optional tender of 2008 Series B Bonds (or portions thereof or beneficial ownership interests therein) or if the 2008 Series B Bonds become subject to mandatory tender for purchase, except in the case of a mandatory tender (a) in connection with the expiration of the Liquidity Facility then in effect and (b) upon a default on the part of the City under the Liquidity Facility then in effect, the Remarketing Agent will use its best efforts, subject to certain conditions, to sell the tendered 2008 Series B Bonds (or portions thereof or beneficial ownership interests therein) at a price equal to the Purchase Price therefor, on the forthcoming optional or mandatory tender date.

The Purchase Price of 2008 Series B Bonds (or portions thereof or beneficial ownership interests therein) tendered for purchase is payable, first, from and to the extent of moneys derived from the remarketing of 2008 Series B Bonds (or portions thereof or beneficial ownership interests therein) by the Remarketing Agent and, if such remarketing proceeds are insufficient, from moneys drawn by the Tender Agent under the Liquidity Facility. The obligation of the Bank to purchase 2008 Series B 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 Twentieth Supplemental Resolution to pay the Purchase Price of the tendered 2008 Series B Bonds (or portions thereof or beneficial ownership interests therein) which are not remarketed or purchased with funds drawn under the Liquidity Facility.

Upon delivery of any 2008 Series B Bond (or portion thereof) on the Purchase Date therefor or of any Untendered 2008 Series B Bond (hereinafter defined) on or after the Purchase Date therefor at the office of the Tender Agent, endorsed in blank (or accompanied by a bond power executed in blank) to the extent of the portion to be purchased, the Tender Agent will pay to the Holder of such 2008 Series B Bond (or portion thereof) or such Untendered 2008 Series B Bond, as the case may be, the Purchase Price therefor from funds available for such purchase held in the applicable account in the 2008 Series B Bond Purchase Fund (as defined in APPENDIX D hereto).

While the 2008 Series B 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 2008 Series B Bonds will be deemed tendered to the Tender Agent endorsed in blank when DTC or any Direct Participant or Indirect Participant (as such terms are defined in “Book-Entry Only System” 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 2008 Series B Bonds

With respect to any 2008 Series B Bond (or portion thereof) (a) for which notice was given in connection with an optional tender but which is not tendered for purchase by 12:00 p.m., New York City time, on the applicable Purchase Date or (b) which is required to be tendered in connection with a mandatory tender and which is not tendered for purchase by 12:00 p.m., New York City time, on the applicable Purchase Date (such 2008 Series B Bonds (or portions thereof) being referred to herein as “Untendered 2008 Series B Bonds”), such 2008 Series B Bond (or portion thereof) will, upon deposit in the applicable account in the 2008 Series B Bond Purchase Fund of an amount sufficient to pay the Purchase Price of such 2008 Series B Bond (or portion thereof) on such Purchase Date, be deemed to have been tendered and sold on such Purchase Date and thereafter, the person who has failed to deliver such 2008 Series B Bond (or portion thereof) will not be entitled to any payment (including any interest accrued subsequent to such Purchase Date) in respect thereof other than the Purchase Price for such 2008 Series B Bond (or portion thereof) and, unless such Purchase Price includes accrued interest to such Purchase Date, such accrued interest, and such Untendered 2008 Series B Bond will no longer be entitled to the benefit of the Resolution, except for the payment of the Purchase Price and accrued interest, if any.

2008 Series B Bank Bonds

Any 2008 Series B Bond (or portion thereof or beneficial ownership interest therein) which has been tendered or deemed tendered for purchase on a Purchase Date and which has been purchased with the proceeds of a drawing under the Liquidity Facility will be and constitute a 2008 Series B Bank Bond under the Twentieth Supplemental Resolution. Each 2008 Series B Bank Bond will bear interest from and including the date on which such 2008 Series B Bond was so purchased (the “Bank Purchase Date”) at the applicable Bank Rate (as defined in APPENDIX D hereto) or Rates in effect from time to time during such period.

The Twentieth Supplemental Resolution provides that any 2008 Series B Bond that is a 2008 Series B Bank Bond will be subject to mandatory redemption through sinking fund installments as follows: Each 2008 Series B Bank Bond outstanding will be redeemed during the period commencing with a date (the “Term-Out Date”) which is 180 days after the Bank Purchase Date (or, if the purchase was made as a result of the Bank’s election to cause the 2008 Series B Bonds to become subject to mandatory tender for purchase following the occurrence of an “event of default” (or similar provision) under the Liquidity Facility then in effect (see “Mandatory Tender for Purchase – *Liquidity Facility Default*” above), 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 2008 Series B Bonds, in equal semi-annual installments, payable on the Term-Out Date and at the end of each six-month period thereafter. In order to provide for such retirement, the Twentieth Supplemental Resolution establishes sinking fund installments with respect to each such 2008 Series B Bank Bond, which sinking fund installments will be due in semi-annual installments, on the Term-Out Date and at the end of each six-month period thereafter with respect to each such 2008 Series B Bank Bond. For purposes of the two preceding sentences, each semi-annual payment date or due date, as the case may be, will be the date that numerically corresponds with the Term-Out Date or, if there is no such numerically corresponding date in the applicable month, on the last day of such month (or, if such day is not a Business Day, the next succeeding Business Day). The redemption price will be the principal amount of the 2008 Series B Bank Bonds to be redeemed plus accrued interest thereon to the date of redemption. In the event that the principal amount of 2008 Series B Bank Bonds to be redeemed on any such redemption date is not equal to an Authorized Denomination, the

principal amount of 2008 Series B Bank Bonds to be redeemed will be rounded to the next higher Authorized Denomination. Notwithstanding anything to the contrary contained in the Resolution, no credits shall be applied against any sinking fund installment due as described in this paragraph.

The Twentieth Supplemental Resolution also provides that each 2008 Series B Bank Bond will constitute an "Option Bond" within the meaning of the Resolution and, as such, may be tendered or deemed tendered to the City for payment upon the occurrence of certain "events of default" on the part of the City under the Liquidity Facility. See the second paragraph under "THE INITIAL LIQUIDITY FACILITY – Remedies of the Bank" herein. Upon any such tender or deemed tender for purchase, the 2008 Series B Bank Bonds so tendered or deemed tendered will be due and payable immediately.

Redemption Provisions

Optional Redemption

The 2008 Series B 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 2008 Series B Bonds are in a Daily or Weekly Mode, on any Business Day;
- (b) if the 2008 Series B Bonds are in a Flexible or Term Mode, on any Rate Adjustment Date for the 2008 Series B Bonds to be redeemed; and
- (c) if the 2008 Series B Bonds are in the Fixed Mode, on the first day of the Fixed Mode for the 2008 Series B Bonds to be redeemed.

In addition, if the 2008 Series B Bonds are in the Term Mode or the Fixed Mode, the 2008 Series B 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 2008 Series B Bond from the gross income of the owner thereof for federal income tax purposes;

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

Sinking Fund Redemption

The 2008 Series B 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:

Year Amount Year Amount

* final maturity

Taking into consideration the sinking fund redemptions set forth above, the average life of the 2008 Series B Bonds, calculated from the date of delivery of such Bonds, is approximately [] years.

The particular 2008 Series B Bonds or portions thereof to be redeemed through mandatory sinking fund installments shall be selected by the Trustee in the manner described below under "Selection of 2008 Series B Bonds to be Redeemed." So long as a book-entry system is used for determining ownership of the 2008 Series B Bonds, DTC or its successor and Direct Participants and Indirect Participants will determine the particular ownership interests of 2008 Series B Bonds to be redeemed through mandatory sinking fund installments.

In determining the amount of 2008 Series B Bonds to be redeemed with any sinking fund installment, there will be deducted the principal amount of any 2008 Series B Bonds which have been purchased, to the extent permitted by the Resolution, with amounts in the Debt Service Account (exclusive of amounts deposited from proceeds of Bonds). In addition, if there is any redemption or purchase of any 2008 Series B Bonds with amounts other than moneys on deposit in the Debt Service Account, such 2008 Series B Bonds may be credited against any future sinking fund installment established for the 2008 Series B Bonds as specified by the City at any time, except as described in the penultimate paragraph under "2008 Series B Bank Bonds" above.

Selection of 2008 Series B Bonds to be Redeemed

Except as described in the following sentence, in the event that less than all of the 2008 Series B Bonds are to be redeemed, the 2008 Series B Bonds to be redeemed will be selected in such manner as the Trustee deems fair and appropriate and the portion of such 2008 Series B Bonds not so redeemed will be in an Authorized Denomination. Notwithstanding the foregoing, in the event of any redemption of less than all of the 2008 Series B Bonds, 2008 Series B Bank Bonds will be redeemed first, prior to the selection of any other 2008 Series B Bonds for redemption.

So long as a book-entry system is used for determining ownership of the 2008 Series B Bonds, the Trustee shall send the notice of redemption to DTC or its nominee, or its successor, and if less than all of the 2008 Series B Bonds are to be redeemed, DTC or its successor and Direct Participants and Indirect Participants will determine the particular ownership interests of 2008 Series B Bonds to be redeemed. Any failure of DTC or its successor or a Direct Participant or Indirect Participant to do so, or to notify a Beneficial Owner of a 2008 Series B Bond of any redemption, will not affect the sufficiency or the validity of the redemption of the 2008 Series B Bonds. Neither the City nor the Trustee can make any assurance that DTC, the Direct Participants or the Indirect Participants will distribute such redemption notices to the Beneficial Owners of the 2008 Series B Bonds, or that they will do so on a timely basis.

Notice of Redemption

The Resolution requires the Trustee to give notice of any redemption of the 2008 Series B 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 2008 Series B Bonds to be redeemed. The failure of the Trustee to give notice by mail, or any defect in such notice, to the holder of any 2008 Series B Bond will not affect the validity of the proceedings for the redemption of any other 2008 Series B Bond. Notice having been given in the manner provided in the Resolution, on the redemption date so designated, (a) unless such notice has been revoked or ceases to be in effect in accordance with the terms thereof and (b) if there shall be sufficient moneys available therefor, then the 2008 Series B Bonds or portions thereof so called for redemption will become due and payable on such redemption date at the redemption price, plus interest accrued and unpaid to the redemption date. So long as a book-entry system is used for determining ownership of the 2008 Series B Bonds, the Trustee shall send the notice of redemption to DTC or its nominee, or its successor, and if less than all of the 2008 Series B Bonds are to be redeemed, DTC or its successor and Direct Participants and Indirect Participants will determine the particular ownership interests of 2008 Series B Bonds to be redeemed. Any failure of DTC or its successor or a Direct Participant or Indirect Participant to do so, or to notify a Beneficial Owner of a 2008 Series B Bond of any redemption, will not affect the sufficiency or the validity of the redemption of the 2008 Series B Bonds. Neither the City nor the Trustee can make any assurance that DTC, the Direct Participants or the Indirect Participants will distribute such redemption notices to the Beneficial Owners of the 2008 Series B 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 2008 Series B Bonds as a result of the expiration of the Liquidity Facility then in effect (see “Mandatory Tender for Purchase – *Expiration of Liquidity Facility*” above), the City may deliver to the Tender Agent a Substitute Liquidity Facility in substitution for the Liquidity Facility then in effect. In the event of any such substitution, 2008 Series B 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 Twentieth Supplemental Resolution, written evidence from each Rating Agency then rating the 2008 Series B Bonds to the effect that such Rating Agency has reviewed the proposed Substitute Liquidity Facility and that the substitution of such Substitute Liquidity Facility for the Liquidity Facility then in effect will not result in a withdrawal, suspension or reduction in such Rating Agency’s ratings on the 2008 Series B Bonds. See “Mandatory Tender for Purchase – *Substitution of Liquidity Facility*” above.

A Substitute Liquidity Facility supporting the 2008 Series B Bonds shall be in an amount at least equal to the Liquidity Facility Requirement for the 2008 Series B Bonds. Any Substitute Liquidity Facility shall become effective with respect to the 2008 Series B Bonds on the Substitution Date therefor established pursuant to the Twentieth 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 2008 Series B Bonds to become includable in gross income for federal income tax purposes; (ii) either (A) written evidence from each Rating Agency then rating the 2008 Series B Bonds to the effect that such Rating Agency has reviewed the proposed Substitute Liquidity Facility and stating the ratings of the 2008 Series B Bonds after substitution of such Substitute Liquidity Facility or (B) a statement of an authorized officer of the City that no ratings have been obtained; (iii) if such Substitute Liquidity Facility is other than a letter of

credit issued by a domestic commercial bank, an opinion of counsel to the effect that no registration of the 2008 Series B Bonds or such Substitute Liquidity Facility is required under the Securities Act of 1933, as amended; (iv) an opinion of counsel satisfactory to an authorized officer of the City to the effect that such Substitute Liquidity Facility is a valid and enforceable obligation of the issuer or provider thereof; and (v) all information required to give the notice of mandatory tender for purchase of the 2008 Series B Bonds, if required by the Twentieth Supplemental Resolution.

In the event that the 2008 Series B 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 2008 Series B Bonds are not subject to mandatory tender for purchase on a Substitution Date (see “Mandatory Tender for Purchase – *Substitution of Liquidity Facility*” above), the Tender Agent will give notice as hereinafter described to the Holders of such 2008 Series B Bonds by mail, first-class postage prepaid, not less than fifteen (15) and not more than sixty (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 2008 Series B Bond (or, if the 2008 Series B 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 2008 Series B Bond (or beneficial ownership interest therein) following such substitution, such Holder (or Beneficial Owner) must give notice of the tender of such 2008 Series B Bond (or beneficial ownership interest therein) by the time and in the manner described under the caption “Optional Tender for Purchase” above.

Registration and Transfer; Payment

The 2008 Series B Bonds may be transferred only on the books of the City held at the principal corporate trust office of the Trustee, as Bond Registrar. Neither the City nor the Bond Registrar will be required to transfer or exchange 2008 Series B Bonds (a) for a period beginning with the applicable Record Date and ending with the next succeeding Interest Payment Date, or (b) for a period beginning with a date selected by the Trustee not more than 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 2008 Series B 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 2008 Series B 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 2008 Series B Bonds will be payable by check or draft of the Trustee, as Paying Agent, mailed to the registered owners by first-class mail (or, to the extent permitted by the Resolution, by wire transfer (see “General” above)). At such time, if any, as the 2008 Series B Bonds no longer shall be subject to such book-entry only system of registration and transfer, the principal of all 2008 Series B Bonds will be payable on the date of maturity or redemption or acceleration thereof upon presentation and surrender at the principal corporate trust office of the Paying Agent.

For so long as a book-entry system is used for determining beneficial ownership of the 2008 Series B Bonds, such principal and interest shall be payable to DTC or its nominee. Disbursement of such payments to the Direct Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners of the 2008 Series B Bonds is the responsibility of the Direct Participants or the Indirect Participants.

Book-Entry Only System

The 2008 Series B Bonds will be available only in book entry form. DTC will act as the initial securities depository for the 2008 Series B Bonds. The 2008 Series B Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued in the aggregate principal amount of the 2008 Series B 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 2008 Series B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2008 Series B Bonds on DTC's records. The ownership interest of each actual purchaser of each 2008 Series B 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 2008 Series B Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2008 Series B Bonds, except in the event that use of the book-entry system for the 2008 Series B Bonds is discontinued.

SO LONG AS CEDE & CO. (OR ANY OTHER NOMINEE REQUESTED BY DTC) IS THE REGISTERED OWNER OF THE 2008 SERIES B BONDS AS NOMINEE FOR DTC, REFERENCES HEREIN TO THE HOLDERS OR REGISTERED OWNERS OR OWNERS OF THE 2008 SERIES B BONDS SHALL MEAN CEDE & CO. (OR SUCH OTHER NOMINEE), AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS.

To facilitate subsequent transfers, all 2008 Series B Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2008 Series B Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2008 Series B 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 Twentieth Supplemental Resolution the Tender Agent may treat DTC (or its nominee) as the sole and exclusive owner of the 2008 Series B Bonds registered in its name for the purpose of: payment of the principal or redemption price of or interest on the 2008 Series B Bonds; selecting 2008 Series B 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 2008 Series B 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 Twentieth 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 2008 Series B 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 2008 Series B 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 2008 Series B 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 2008 Series B Bonds; or any consent given or other action taken by DTC as a Holder of the 2008 Series B Bonds.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2008 Series B 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 2008 Series B 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 2008 Series B 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 2008 Series B Bonds must make arrangements with the Direct Participant or Indirect Participant through whom such Beneficial Owner's ownership interest in the 2008 Series B 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 2008 SERIES B 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 2008 Series B 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 2008 Series B Bonds, the City, the Trustee or the Tender Agent, as applicable, will give or cause to be given any notice of redemption mandatory tender for purchase or any other notices required to be given to Holders of 2008 Series B 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 2008 Series B Bonds called for such redemption, of the mandatory tender for purchase of such 2008 Series B 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 2008 Series B Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2008 Series B Bonds such as redemptions, tenders, defaults, and proposed amendments to the Resolution. For example, Beneficial Owners of the 2008 Series B Bonds may wish to ascertain that the nominee holding the 2008 Series B 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 2008 Series B Bonds, redemption notices and notices of mandatory tenders for purchase shall be sent only to DTC. If less than all of the 2008 Series B Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such 2008 Series B 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 2008 Series B 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 2008 Series B 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 2008 Series B Bonds on DTC's records to the Tender Agent. The requirement for physical delivery of 2008 Series B Bonds in connection with such an election to tender will be deemed satisfied only when the ownership rights in such 2008 Series B Bonds are transferred by Direct Participants on DTC's records.

The Resolution provides that, notwithstanding any provision therein to the contrary, so long as 2008 Series B Bonds are issued in book-entry-only form as described above, every remarketing of such 2008 Series B Bonds (or portions thereof) by the Remarketing Agent therefor and all purchases and transfers of such 2008 Series B 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 2008 Series B 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 2008 Series B 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 2008 Series B 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 2008 Series B 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 2008 Series B 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, 2008 Series B Bond certificates will be printed and delivered. Transfers and exchanges of 2008 Series B Bonds shall thereafter be made as provided in the Resolution.

If the book entry-only system is discontinued, the persons to whom 2008 Series B 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 2008 Series B Bonds, the redemption of 2008 Series B 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 2008 Series B 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 2008 Series B 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.

General

Until its Stated Termination Date (see “INTRODUCTORY STATEMENT – General” herein), liquidity support in connection with tenders for purchase of the 2008 Series B 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 2008 Series B 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 2008 Series B Bond Liquidity Proceeds Account in the 2008 Series B 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 2008 Series B 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 2008 Series B 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 2008 Series B 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 2008 Series B 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 2008 Series B 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;

(j) the long-term portion of the ratings of the 2008 Series B 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; or

(k) the long-term portion of the ratings of the 2008 Series B Bonds (without taking into account third-party credit enhancement) is withdrawn or suspended or reduced below “A2” by Moody’s and “A-” by S&P.

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 2008 Series B Bonds; *provided, however*, that such termination will not become effective unless, prior to the date of such termination, the Bank has purchased all 2008 Series B 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 2008 SERIES B 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 2008 Series B Bank Bonds for payment to the City and the City will thereupon be obligated to pay immediately the outstanding principal amount of each 2008 Series B 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 2008 Series B 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 2008 Series B 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

[TO COME]

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 2006 population

of 247,528 in the Gainesville Metropolitan Statistical Area. As of April 2007, an estimated 122,671 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 2007 enrollment at the University of Florida was approximately 51,600 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:

	Term Expires
Mayor Pegeen Hanrahan, At-large.....	May 2010
Commissioner Stuart Craig Lowe, District 4, Mayor Pro-Tem	May 2010
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

[TO BE UPDATED] The City Commission appoints a General Manager for Utilities who is responsible for the overall administration of the utilities system.

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 89,912 customers in the fiscal year ended September 30, 2007 and having a maximum net summer generating capacity of 611 MW.

The natural gas system was acquired from the Gainesville Gas Company in 1990 to provide gas distribution throughout the City. The gas system served an average of 33,125 customers in the fiscal year ended September 30, 2007.

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 67,774 and 62,005

customers, respectively, in the fiscal year ended September 30, 2007. 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, General Manager for Utilities, was appointed General Manager in February 2007. Ms. Johnson was appointed Interim General Manager in March 2006. Previously, Ms. Johnson served as Assistant General Manager-Customer and Administrative Services since 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 and the Utilities Attorney. The five Assistant General Managers consist of: Energy Supply; Energy Delivery; Water and Wastewater Systems; Strategic Planning; and Customer Support Services. The following paragraphs describe the other members of the System's executive team and their backgrounds:

Ms. Karen C. Alford, Interim Assistant General Manager-Energy Supply, joined the System in 1979. She was previously responsible for managing the Fuels operations for the System, which includes contract negotiation and administration, acquisition of fuel commodities and transportation, fuel accounting, inventory, forecasting and risk management. Ms. Alford oversees 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, Chief Financial Officer, Utilities, was appointed in August 2004. She joined the System in May 2000 and formerly served as the Managing Utility Analyst for Finance. Ms. Hunt oversees the financial affairs of the System and is responsible for budgeting, debt and investment management, accounting, customer accounts functions, and information technology. She also represents the System on the Finance and Audit Committee of 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, power supply planning and systems engineering, and environmental planning and compliance. Mr. Regan also represents the System on the Settlement and Operations Committee of TEA, the Board of Directors of the Florida Municipal Electric Authority and the Florida Reliability Coordinating Council.

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

Labor Relations

The System presently employs approximately 825 persons. All personnel are City employees and are solely under the management of the City. Florida law prohibits public employees from striking.

Approximately 620 of the System's employees are represented by Local No. 3170 of the Communications Workers of America (the "CWA"). The City's collective bargaining agreement with the CWA expires on December 31, 2009. Currently, there are no outstanding charges of unfair labor practices filed by the CWA against the City with the Florida Public Employees Labor 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 two wholesale customers: Seminole Electric Cooperative, Inc. ("Seminole") and the City of Alachua ("Alachua"). 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 79% 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, 2003 through 2007.

	Fiscal Years ended September 30,				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Retail Customers (Average):					
Residential	74,164	76,435	77,918	79,125	80,237
Commercial and Industrial.....	<u>8,912</u>	<u>9,203</u>	<u>9,342</u>	<u>9,538</u>	<u>9,675</u>
Total	<u>83,076</u>	<u>85,638</u>	<u>87,260</u>	<u>88,663</u>	<u>89,912</u>

Of the 89,912 customers in the fiscal year ended September 30, 2007, the 9,675 commercial and industrial customers provided approximately 51% of revenues from retail energy sales. The ten largest retail users of electric energy of the System in the fiscal year ended September 30, 2007 (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. TEA has offices in Jacksonville, Florida and Seattle, Washington and provides power marketing, trading, and risk management services throughout most of the United States. The total 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, 2007, the System sold 2,041,022 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 5.3% per year from the fiscal year ended September 30, 2003 through the fiscal year ended September 30, 2007. Year to year variability is due primarily to the effects of weather on heating and cooling loads. The following table shows the System's sales in MWh and average use of electricity, in kWh, by customer class, for the fiscal years ended September 30, 2003 through 2007. For the fiscal year ended September 30, 2007, there was a 2.6% decrease in residential MWh sales from the fiscal year ended September 30, 2006. This decrease is the result of successful conservation programs and mild weather.

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 74,834 MWh to Seminole in the fiscal year ended September 30, 2007 and collected \$4,986,593 in revenues from those sales, which represents approximately 3.9% of total energy sales (excluding interchange sales) and 4% of total sales revenues. The System has had a wholesale contract with Alachua since 1988, which will terminate December 31, 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, 2007, the System sold 106,717 MWh to Alachua and received \$7,673,408 in revenues from those sales, which represents approximately 7% of total energy sales (excluding interchange sales) and 3.7% of total sales revenues. The City of Alachua is in the process of competitively bidding on a new five year power supply contract, and the System has submitted a proposal to provide this service.

Retail and Wholesale Energy Sales

	Fiscal Years ended September 30,				
	2003	2004	2005	2006	2007
Energy Sales–MWh:					
Residential.....	866,080	873,612	875,304	901,437	877,650
General Service, Large Power and Other	931,859	950,797	956,987	981,330	981,820
Firm Wholesale	<u>148,827</u>	<u>143,896</u>	<u>161,264</u>	<u>174,948</u>	<u>181,552</u>
Total.....	<u>1,946,766</u>	<u>1,968,305</u>	<u>1,993,555</u>	<u>2,057,715</u>	<u>2,041,022</u>
Average Annual Use per Customer–kWh:					
Residential.....	11,678	11,429	11,234	11,393	10,938
General Service, Large Power and Other	104,562	103,325	102,439	102,884	101,481

Interchange and Economy Wholesale Sales

The System realizes net revenues from non-firm and/or short-term power sales through TEA. 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. However, as the System's native load increases, the opportunities to make such non-firm and/or short-term power sales have become more limited and the margins gained smaller. Resource shortfalls of another utility or market conditions may provide additional opportunities for such sales. The System experienced an increase in sales of non-firm and/or short-term power between 2006 and 2007, resulted from forced outages and favorable market conditions. Alachua sales increased due to growth in demand in that community. 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>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Net Revenues	\$2,039	\$766	\$515	\$780	\$1,698
Percent of Total					
Electric System					
Net Revenues	3.8%	1.5%	1.1%	1.69%	1.5%

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

Interchange and Economy Wholesale Purchases

Interchange and economy wholesale purchases made when power is available from the market at prices below the System's production costs are among the factors that allow the System to assure competitive power costs for retail and firm wholesale customers. These purchases are made through TEA. 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, 2007, 12.4% of power for retail and wholesale sales were obtained through off-system purchases.

Demand-Side Management

The System employs cost-effective demand-side management ("DSM") programs as one way to meet the energy needs of its retail customers. It has been offering DSM programs since 1980. Currently, it is estimated that over 6% of the System's customers' energy needs have been met by DSM and renewable energy, the highest percentage reported by any electric utility in Florida. These programs contribute in part to the System having the lowest electrical use per residential customer of any urban area in Florida.

DSM programs available, or expected to be implemented during fiscal year 2008, 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 distributed resources.

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. Funding for conservation was increased in 2007 and is expected to increase again in 2008. 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. DSM program implementations are estimated to have provided 26.6 MW of summer peak reduction cumulative, 48.9 MW of winter peak reduction since 1980 and 134,708 MWh in annual energy savings through the year 2007. 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 “GRUGreenTM”. 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, 2007, 548 customers chose to participate in GRUGreen resulting in revenue of \$57,524.39. 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 27% in the year ended September 30, 2007. 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 System is currently constructing a combined heat and power facility to serve a new cancer hospital being constructed by Shands Teaching Hospital and Clinics Inc. at the University of Florida. The facility will provide a net base load generation capacity of 4 megawatts while providing waste heat to produce steam and chilled water for the hospital. The entire energy facility called “GRU Energy Center