

Under the master agreements, the interest rate swap transactions entered into pursuant to such master agreements are subject to early termination upon the occurrence of certain "events of default" and upon the occurrence of certain "termination events." One such "termination event" with respect to the Bonds is a suspension or withdrawal of certain credit ratings with respect to the Bonds, or a downgrade of such ratings below the levels set forth in the master agreement or in the confirmation related to a particular interest rate swap transaction. Upon the early termination of an interest rate swap transaction, the City may owe the applicable counterparty a termination payment, the amount of which could be substantial. The amount of any such potential termination payment would be determined in the manner provided in the applicable master agreement and would be based primarily upon prevailing market interest rate levels and the remaining term of the interest rate swap transaction at the time of termination. Such termination payments are Subordinated Hedging Contract Obligations pursuant to the terms of the Resolution. In general, the ratings triggers on the part of the System contained in the master agreements range from (x) if any two ratings on the 2017A Bonds are below "Baa2" by Moody's and/ or "BBB" by S&P and/ or "BBB" by Fitch to (y) if the City fails to have at least one rating on the 2017A Bonds of "Baa3" by Moody's, "BBB-" by S&P or "BBB-" by Fitch.

Following the issuance of the 2017B Bonds, the System's estimated aggregate exposure under all of its outstanding interest rate swap transactions (*i.e.*, the net amount of the termination payments that the System will owe its counterparties if all of the interest rate swap transactions were terminated) is now ~~[\$56,997,376.01]~~. As of September 30, 2017, the System's estimated aggregate exposure under all of its then outstanding interest rate swap transactions (*i.e.*, the net amount of the termination payments that the System would owe its counterparties if all of the interest rate swap transactions were terminated) was \$64,101,764.72. As of September 30, 2016, the System's estimated aggregate exposure under all of its then outstanding interest rate swap transactions (*i.e.*, the net amount of the termination payments that the System would owe its counterparties if all of the interest rate swap transactions were terminated) was \$93,138,518.72. As of September 30, 2015, the System's estimated aggregate exposure under all of its then outstanding interest rate swap transactions was \$77,042,766.58. As of September 30, 2014, the System's estimated aggregate exposure under all of its then outstanding interest rate swap transactions was \$55,103,516.23. Termination payments are Subordinated Hedging Contract Obligations pursuant to the terms of the Resolution.

The System adopted Governmental Accounting Standards Board ("GASB") Statement No. 53, Accounting and Reporting for Financial Reporting and Derivative Instruments, which addresses the recognition, measurement and disclosure of information for derivative instruments, and was effective for periods beginning after June 15, 2009. GASB Statement No. 53 requires retrospective adoption, which requires a restatement of the financial statements for the earliest year presented. GASB Statement No. 53 requires the fair market value of derivative instruments, including interest rate swap transactions, to be recorded on the balance sheet. Changes in fair value for effective derivative instruments are recorded as a deferred inflow or outflow, while changes in fair value for ineffective derivative instruments are recorded as investment income. This is a significant change from previous practice, which required the fair value of derivative instruments to be disclosed in the footnotes to the financial statements.

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

Fair value is defined in Statement No. 72 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

(an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

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

Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. U.S. Treasury securities are examples of Level 1 inputs.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. U.S. agencies, corporate bonds and financial hedges are examples of Level 2 inputs.

Level 3 inputs are unobservable inputs that reflect GRU's own assumptions about factors that market participants would use in pricing the asset or liability (including assumptions about risk).

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

Investments in debt securities are valued using Level 2 measurements because the valuations use interest rate curves and credit spreads applied to the terms of the debt instrument (maturity and coupon interest rate) and consider the counterparty credit rating.

Commodity derivatives, such as futures, swaps and options, which are ultimately settled using prices at locations quoted through clearinghouses are valued using level 1 inputs.

Other hedging derivatives, such as swaps settled using prices at locations other than those quoted through clearinghouses and options with strike prices not identically quoted through a clearinghouse, are valued using Level 2 inputs. For these instruments, fair value is based on pricing algorithms using observable market quotes.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. GRU's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their place within the fair value hierarchy levels. GRU's fair value measurements are performed on a recurring basis.

Funding the Capital Improvement Program - Additional Financing Requirements

The System's current five-year capital improvement program requires a total of approximately \$393 million in capital expenditures in the fiscal years ending September 30, 2018 through and including 2022, and does not include the DHR Biomass Plant acquisition described above. Such amount was funded in part from Revenues and approximately \$175 million of additional Bonds (including additional commercial paper notes). The following table shows the sources of funding for the fiscal years ending September 30, 2018 through and including 2022:

Source of Funds:	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Total</u>
Bond Financing	\$40,000,000	\$35,000,000	\$35,000,000	\$35,000,000	\$35,000,000	\$180,000,000
Revenues	<u>50,000,000</u>	<u>44,000,000</u>	<u>36,000,000</u>	<u>50,000,000</u>	<u>38,000,000</u>	<u>218,000,000</u>
Total Sources	<u>\$85,000,000</u>	<u>\$79,000,000</u>	<u>\$71,000,000</u>	<u>\$85,000,000</u>	<u>\$73,000,000</u>	<u>\$393,000,000</u>

Source: Prepared by the Finance Department of the System.

The table above represents GRU's planned future capital improvements to the System and the planned sources of funds. Future City Commission approved budgets could materially change the sources and uses of funds for the capital improvement program.

Factors Affecting the Utility Industry

General

The primary factors currently affecting the utility industry include environmental regulations, Operating Planning and Critical Infrastructure Protection Standards promulgated by NERC under FERC jurisdiction, and the increasing strategic and price differences among various types of fuels. No state or federal legislation is pending or proposed at this time for retail competition in Florida.

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

Environmental and Other Natural Resource Regulations

The System and its operations are subject to federal, state and local environmental regulations which include, among other things, control of emissions of particulates, mercury, acid gases, SO₂ and NO_x into the air; discharges of pollutants, including heat, into surface or ground water; the disposal of wastes and reuse of products generated by wastewater treatment and combustion processes; management of hazardous materials; and the nature of waste materials discharged into the wastewater system's collection facilities. Environmental regulations generally are becoming more numerous and more stringent and, as a result, may substantially increase the costs of the System's services by requiring changes in the operation of existing facilities as well as changes in the location, design, construction and operation of new facilities (including both facilities that are owned and operated by the System as well as facilities that are owned and operated by others, from which the System purchases output, services, commodities and other materials). There is no assurance that the facilities in operation, under construction or contemplated will always remain subject to the regulations currently in effect or will always be in compliance with future regulations. Compliance with applicable regulations could result in increases in the costs of construction and/or operation of affected facilities, including associated costs such as transmission and transportation, as well as limitations on the operation of such facilities. Failure

to comply with regulatory requirements could result in reduced operating levels or the complete shutdown of those facilities not in compliance as well as the imposition of civil and criminal penalties.

Increasing concerns about climate change and the effects of GHGs on the environment have resulted in EPA finalizing on August 3, 2015 carbon regulations, the Clean Power Plan, for existing power plants. Currently, the Clean Power Plan is being litigated and August 10, 2017, the United States Court of Appeals for the D.C. Circuit issued an order holding the challenges to the greenhouse gas new source performance standards ("GHG NSPS") in abeyance "pending further order of the court." The order also directs EPA to file status reports at 90-day intervals beginning October 27, 2017. Further litigation is expected regardless of the DC Circuit Court of Appeals decision. In addition, the EPA has been given presidential direction to review the Clean Power Plan. The court has also ordered the parties to file supplemental briefs addressing whether the challenges should be remanded to the EPA rather than held in abeyance. The briefs were filed on May 15, 2017.

On October 16, 2017 the proposed repeal of the CPP was published in the Federal Register. On November 2, 2017, a hearing was announced for November 28 and 29 2017 in west Virginia. On January 11, 2018, the comment period extended to April 26, 2018 and three listening sessions were announced for February and March in Missouri, California and Wyoming.

With respect to a replacement rule, the Advance Notice of Proposed Rulemaking for the CPP replacement was published on December 28, 2017.

Air Emissions

The Clean Air Act

The Clean Air Act regulates emissions of air pollutants, establishes national air quality standards for major pollutants, and requires permitting of both new and existing sources of air pollution. Among the provisions of the Clean Air Act that affect the System's operations are (1) the acid rain program, which requires nationwide reductions of SO₂ and NO_x from existing and new fossil-fueled electric generating plants, (2) provisions related to toxic or hazardous pollutants, and (3) requirements to address regional haze.

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

The Cross-State Air Pollution Rule (CSAPR)

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

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

On July 28, 2015, the D.C. Circuit ruled that Florida's allowance budget is invalid and remanded CSAPR to the EPA. On October 26, 2016 EPA published, in the *Federal Register* at 81 Fed. Reg. 74504, an update to the CSAPR to address the 2008 Ozone National Ambient Air Quality Standards ("NAAQS"). For three states (North Carolina, South Carolina and Florida), the EPA is removing the states from the CSAPR ozone season NO_x trading program because modeling for the Final Rule indicates that these states do not contribute significantly to ozone air quality problems in downwind states under the 2008 ozone NAAQS. Therefore, GRU will not have to meet ozone season limits in 2018 and, most likely, 2019.

EPA's Rule Establishing Mercury and Air Toxics Standards ("MATS")

On December 16, 2011, the EPA promulgated a rule to reduce emissions of toxic air pollutants from power plants. Specifically, these mercury and air toxics standards or MATS for power plants will reduce emissions from new and existing coal- and oil-fired electric utility steam generating units ("EGU"). The EPA also signed revisions to the new source performance standards for fossil fuel-fired EGUs. Such revisions revised the standards that new coal- and oil-fired power plants must meet for particulate matter, SO₂ and NO_x. On November 25, 2014, the United States Supreme Court accepted certiorari to hear challenges to the mercury rules.

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

On April 14, 2016, the Administrator of the EPA signed the final supplemental finding in the MATS rule. The new "appropriate and necessary" finding responds to the U.S. Supreme Court decision in *Michigan v. EPA*, and explains how the EPA has taken cost into account in evaluating whether it is

appropriate and necessary to regulate coal- and- oil-fired EGUs under Section 112 of the Clean Air Act (the "CAA"). The EPA still concludes it is proper to regulate mercury emissions from power plants.

On May 6, 2016, the EPA filed a brief urging the U.S. Supreme Court to deny a *writ of certiorari* filed by 20 states, which requested that the Court review and reverse a decision by the U.S. Court of Appeals for the D.C. Circuit Court to remand MATS to the EPA without vacating the rule. According to the EPA's brief, the Supreme Court should deny review of whether MATS should have been vacated while the EPA made its "appropriate and necessary" finding because the issue was then moot since the EPA had issued the finding. Additionally, the EPA argued that the CAA, not the Administrative Procedure Act, governs whether MATS should have been vacated, and the CAA does not mandate vacatur of a rule on remand. Rather, the EPA argued that the CAA gives a court discretion on whether to vacate a remanded rule based on the circumstances. Finally, the EPA asserted that the D.C. Circuit Court was correct in not vacating MATS on remand because the EPA could quickly remedy the legal deficiency and vacating the rule would have been harmful to the public because it would have allowed an increase in emissions of hazardous air pollutants from EGUs.

Murray Energy became the first party to appeal the final MATS Appropriate and Necessary Finding, filing its petition for review on April 25, 2016, the same day the rule was published in the *Federal Register*: 81 Fed. Reg. 24,420 (Apr. 25, 2016). All petitions for review of the Finding must have been filed in the D.C. Circuit Court no later than June 24, 2016. As of this deadline, six petitions for review have been filed in the D.C. Circuit Court and have been consolidated under the lead case *Murray Energy Corp. v. EPA*, No. 16-1127.

On October 14, 2016, the D.C. Circuit Court issued orders establishing the briefing schedule for the challenge related to MATS. In *Murray v. EPA*, 16-1127 (D.C. Cir.), industry petitioners challenge the EPA's supplemental determination that it was "appropriate and necessary" to regulate emissions of hazardous air pollutants from electric generating units.

On April 27, 2017, the D.C. Circuit Court granted the EPA's motions to postpone oral argument in the challenge to the EPA's supplemental determination that it was "appropriate and necessary" to regulate emissions of hazardous air pollutants from electric generating units ("Supplemental Finding"), *Murray v. EPA*, No. 16-1127 (D.C. Cir.), as well as in industry's challenge to the EPA's denial of administrative petitions for reconsideration of MATS, *ARIPPA v. EPA*, No. 15-1180 (D.C. Cir.). Oral argument in both cases was previously scheduled for May 18, 2017.

The court also ordered both challenges held in abeyance "pending further order of the court." EPA is directed to file status reports with the court every 90 days. The parties will be directed to file motions to govern future proceedings within 30 days of the EPA notifying the court and the parties of any action it has or will be taking with respect to the Supplemental Finding and the MATS reconsideration petitions.

So far, since the MATS program became effective on April 16, 2015, DH 2 (the only unit MATS applies to) has complied with all requirements.

Effluent Limitation Guidelines

On September 30, 2015, the EPA issued a final rule addressing effluent limitation guidelines ("ELG") for power plants under the Clean Water Act (the "ELG Rule"). The final rule establishes Best

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

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

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

The Utility Water Act Group ("UWAG"), On March 24, 2017, filed an administrative petition for reconsideration of the ELG Rule. The petition requests EPA reconsider the ELG Rule and seeks an administrative stay to suspend all compliance deadlines, while EPA works to reconsider and revise the rule.

On April 12, 2017, the EPA Administrator, Scott Pruitt, announced that he will reconsider the ELGs for the power sector, in response to the two petitions for reconsideration received from UWAG and the Small Business Administration's Office of Advocacy. Both petitions raised concerns that the ELG Rule imposed unreasonable costs and lacked scientific support.

The Sierra Club, Clean Water Action, and a handful of other groups filed on May 3, 2017, a legal challenge against EPA's ELG stay. The complaint, filed in the D.C. Circuit Court, cites six supposed legal deficiencies in the EPA's stay, and asks the court to vacate the stay and compel the EPA to reinstate the compliance deadlines. All parties are now waiting on a decision by the D.C. Circuit Court.

On July 28, 2017, the EPA filed a cross motion for summary judgment. The motion makes two main arguments: (1) Sierra Club filed the suit in the wrong court; it should have been filed in the 5th Circuit, which is considering the legal challenges against the substance of the ELG Rules and (2) EPA has "extraordinarily broad authority" to stay the compliance deadlines under section 705 of the APA. Note that this filing does not address EPA's reconsideration of the ELG Rules, which we still expect a decision on by August 14, 2017 and that may ultimately moot the litigation in the D.C. District Court. This motion is noteworthy, however, in that EPA is mounting a vigorous defense of its steps to unwind the ELG Rules.

On August 23, 2017, the 5th Circuit granted the Department of Justice's motion "to sever and hold in abeyance all judicial proceedings as to all issues relating to the portion of the 2015 Rule concerning the new, more stringent BAT limitations and PSES applicable to (1) bottom ash transport water, (2) FGD wastewater, and (3) gasification wastewater." The abeyance will last until EPA completes its rulemaking and variance activities (explained in the email below). The challenges against other elements of the ELG Rule will move forward.

Regional Haze

On June 15, 2005, the EPA issued the Clean Air Visibility Rule, amending its 1999 regional haze rule, which had established timelines for states to improve visibility in national parks and wilderness

areas throughout the United States. Under the amended rule, certain types of older sources may be required to install best available retrofit technology ("BART"). Some of the effects of the amended rule could be requirements for newer and cleaner technologies and additional controls for particulate matter, SO₂ and NO_x emissions from utility sources. The states were to develop their regional haze implementation plans by December 2007, identifying the facilities that will have to reduce emissions and then set emissions limits for those facilities. However, states have not met that schedule and on January 15, 2009, the EPA published a notice finding that 37 states (including Florida), the District of Columbia and the Virgin Islands failed to submit all or a portion of their regional haze implementation plans. The EPA's notice initiates a two-year period during which each jurisdiction must submit a haze implementation plan or become subject to a Federal Implementation Plan issued by the EPA that would set the basic program requirements. See "The Electric System – Energy Supply System – *Generating Facilities – Deerhaven*" herein for a description of the actions that have been taken by the System to install additional emission control equipment at DH 2 and reduce SO₂ and NO_x emissions that potentially contribute to regional haze.

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

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

Internal Combustion Engine MACT

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

Climate Change

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

be able to request more time to submit complete implementation plans with the EPA being able to allow states until June 30, 2017 or June 30, 2018, as appropriate, to submit additional information completing the submitted plan no later than June 30, 2016.

Accordingly, on June 2, 2014, the EPA released a proposed rule, the Clean Power Plan Rule, that would limit and reduce carbon dioxide emissions from certain fossil fuel power plants, including existing plants. Finally, on August 3, 2015, the EPA released the final version of such rule, and on October 23, 2015, EPA published in the *Federal Register* the GHG existing source performance standards for power plants (the "Clean Power Plan"), and the final NSPS for GHG emissions from new, modified and reconstructed fossil fuel-fired power plants. The final Clean Power Plan was published at 80 Fed. Reg. 64662, and the final GHG NSPS were published at 80 Fed. Reg. 64510.

On October 23, 2015, the American Public Power Association ("APPA") and the Utility Air Regulatory Group ("UARG") filed a joint petition for review of the EPA's final Section 111(d) rule to regulate carbon dioxide ("CO₂") emissions from existing electric generating sources in the D.C. Circuit Court. In addition, the state of West Virginia joined by Texas, Alabama, Arkansas, Colorado, Florida, Georgia, Indiana, Kansas, Kentucky, Louisiana, Michigan, Missouri, Montana, Nebraska, New Jersey, Ohio, South Carolina, South Dakota, Utah, Wisconsin, Wyoming, the Arizona Corporation Commission, and the North Carolina Department of Environmental Quality also filed their motion to stay the final Section 111(d) rule under the Clean Air Act. Such a stay would put implementation of the rule on hold until the court decides on its legality.

On January 26, 2016, 29 states requested that the U.S. Supreme Court stay implementation of the final GHG Clean Power Plan or CPP (80 Fed. Reg. 64662 - Oct. 23, 2015), pending judicial review of the rule. On February 9, 2016, the Supreme Court granted the stay of the Clean Power Plan pending judicial review of the rule. The stay will remain in effect pending Supreme Court review if such review is sought. Since the US Supreme Court stayed the EPA rulemaking on the Clean Power Plan, that extraordinary action will delay any regulatory action. GRU continues to closely monitor any activities with respect to Climate Change and GHGs.

The D.C. Circuit Court issued an order on April 28, 2017, holding the consolidated Clean Power Plan cases in abeyance for 60 days. The D.C. Circuit Court is requiring the EPA to file status reports concerning its ongoing regulatory deliberations at 30 days intervals. The court also asked the parties to file supplemental briefs by May 15, 2017 addressing whether the judicial process should be ended and the matter should be remanded to the EPA.

On August 10, 2017, the United States Court of Appeals for the D.C. Circuit issued an order holding the challenges to the greenhouse GHG NSPS in abeyance "pending further order of the court. The order also directs EPA to file status reports at 90-day intervals beginning October 27, 2017.

On October 10, 2017, the EPA Administrator signed a rule proposing the repeal of the CPP and on October 16, 2017 the proposed repeal of the CPP was published in the *Federal Register*. On November 2, 2017, a hearing was announced for November 28 and 29, 2017 in West Virginia. On January 11, 2018, the comment period extended to April 26, 2018 and three listening sessions were announced for February and March in Missouri, California, and Wyoming.

With respect to a replacement rule, the Advance Notice of Proposed Rulemaking for the CPP replacement was published on December 28, 2017.

Coal Combustion Products

The EPA published a final rule (40 CFR 257), effective October 14, 2015, to regulate the disposal of coal combustion residuals ("CCR") as solid waste under subtitle D of the Resource Conservation and Recovery Act ("RCRA"). The rule includes national minimum criteria for existing and new CCR landfills and existing and new CCR surface impoundments. GRU is subject to the requirements of the promulgated rule that are applicable to CCR ponds and landfill at Deerhaven.

On May 1, 2017, EPA Administrator Scott Pruitt sent a letter informing states that the EPA is working on guidance for implementing state permitting programs that allow flexibility in individual permits to manage the safe disposal of coal combustion residuals, known as CCR or "coal ash." The EPA expects that its new guidance will allow for the safe disposal and continued beneficial use of coal ash, while enabling states to decide what works best for their environment. GRU, through the Florida Electric Power Coordinating Group, made contact with FDEP's Tim Bahr on May 2, 2017 and he confirmed that the EPA shared some draft CCR permit program materials (draft FAQs, draft checklist, etc.) last week. The FDEP is planning to discuss that internally. The EPA has not finished drafting the guidance document that is intended to assist States in ensuring that their permit program applications are complete. This guidance has been published in the Federal Register. GRU continues to closely follow developments related to CCR regulations.

Storage Tanks

GRU is required to demonstrate financial responsibility for the costs of corrective actions and compensation of third-parties for bodily injury and property damage arising from releases of petroleum products and hazardous substances from certain underground and above-ground storage tank systems. GRU has eleven fuel oil storage tanks. The South Energy Center has two underground distillate (No. 2) oil tanks, the JRK Station has four above-ground distillate oil tanks, two of which are empty and out of service, and two above-ground No. 6 oil tanks which are empty and out of service. DH has one above-ground distillate and two above-ground No. 6 oil tanks, one of which is out of service. All of GRU's fuel storage tanks have secondary containment and/or interstitial monitoring and GRU is insured for the requisite amounts.

Remediation Sites

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

In the Site-Wide Monitoring Report dated March 24, 2011, measurable free product was detected in four wells. An inspection in April 2013 showed that groundwater contains four of the polynuclear aromatic hydrocarbons ("PAH") (Benzo[a]anthracene, Benzo[a]pyrene, Benzo[b]fluoranthene, and

Dibenzo[a,h]anthracene) at concentrations greater than their groundwater cleanup target levels ("GCTL"). With the exception of Benzo[a]pyrene, the concentration of the remainder of these parameters did not exceed their Natural Attenuation Default Concentrations. The groundwater quality data reported in the 2011 Site-Wide Groundwater Monitoring Report documents that groundwater quality meets applicable GCTLs at the locations sampled. It is likely that groundwater quality impacts exist in the area where residual number 6 Fuel Oil is present as a non-aqueous phase liquid.

In August 2013, the System submitted a no further action proposal to the FDEP requesting that the site be granted a no further action status based on an evaluation of the soil and groundwater data with respect to site conditions and operations. The FDEP has not formally responded to the NFA request and there is currently no further update.

Water Use Restrictions

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

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

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

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

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

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

Manufactured Gas Plant

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

Wholesale and Retail Electric Restructuring

Energy Policy Act of 2005

The 2005 Energy Policy Act empowered FERC to enforce mandatory compliance with the Bulk Electric System reliability standards. FERC delegated policy enforcement and standard development to NERC who, in turn, delegated regional enforcement and monitoring to the FRCC in the State to become the ERO monitoring the System's compliance. The System is a "registered entity" with NERC and FRCC under the following nine functional categories and must comply with all standards applicable to those categories:

- Balancing Authority
- Distribution Provider
- Generation Owner
- Generation Operator
- Planning Authority
- Resource Planner
- Transmission Owner
- Transmission Operator
- Transmission Planner

Electric utilities registered as a Balancing Authority or Transmission Operator are required to undergo an on-site audit for compliance with the reliability standards once every three years. The System is registered as both a Balancing Authority and a Transmission Operator and is therefore subject to the 3-year on-site audit cycle. In addition to the NERC O&P reliability standards, Version 5 of NERC's Critical Infrastructure Protection ("CIP") standards became applicable to GRU July 1, 2016. Compliance with these standards helps ensure the cyber and physical security of GRU's Bulk Electric System ("BES"). On February 22-23, 2017, FRCC compliance auditors conducted an on-site audit for compliance with the standards and requirements associated with the System's functions within the Florida bulk power system as listed above, and no violations were found. The System's next on-site reliability compliance audit is anticipated to occur in November, 2017.

FERC Order 779

FERC Order 779 was issued in May 2013 to deal with the establishment of Geomagnetic Disturbances ("GMD") reliability standards in two stages. Stage one became effective in April 2015 and required the development and implementation of operating procedures that mitigate the impact of GMD events. Stage two (Notice of Proposed Rulemaking, May 14, 2015) will require that the transmission system will be planned in a manner to mitigate the risks associated with GMD events such as system instability and/or uncontrolled separation. FERC Order 779 will have a minor impact on the System.

FERC Order 1000

FERC Order 1000 became effective 60 days after publication of the final order in the Federal Register, August 11, 2011. Order 1000 affects transmission planning and cost allocation requirements and drives reform in three areas: planning, cost allocation and non-incumbent developers.

Planning element reforms:

- Each public utility transmission provider must participate in the development of a regional transmission plan.
- Regional and local transmission plans are to be driven by state or federal laws or regulation. Transmission needs and associated solutions are to be weighed against those requirements.
- Neighboring transmission regions are to coordinate the satisfaction of mutual transmission needs (efficiency and cost).

Cost allocation reforms:

- Each public utility transmission provider must participate in a regional cost sharing allocation method for the selected transmission solution.
- A similar cost allocation is required when neighboring transmission regions select an interregional solution.
- Participant finding is permitted. However, it may not be the regional or interregional allocation schema.

Developer reforms:

- With certain limitations, public utility providers must remove from their tariffs a federal right of first refusal for a regional transmission plan needs solution for the purposes of cost allocation.
- The reliability and service requirements of incumbent transmission providers may be dependent upon regional transmission infrastructure. The order requires the reevaluation of the regional transmission plan and the identification of alternative transmission solutions should the delay in infrastructure development adversely impact system reliability and/or the delivery of required services.

The System is a full participant in the regional transmission planning process through the FRCC.

Impact of Hurricane Irma

On September 10, 2017, the State of Florida was impacted by Hurricane Irma. At approximately 9:00 a.m., the center of Hurricane Irma made landfall at Cudjoe Key in the lower Florida Keys as a Category 4 storm, according to the National Weather Service. The center of Hurricane Irma made a second landfall as a Category 3 storm, at approximately 3:30 p.m., near Marco Island, which is located approximately 300 miles southwest of the City. The City recorded sustained winds of 70 mph along with approximately 12 inches of rain in the local area in a 24 hour period. As expected, due to the winds, rain and local area flooding, electric service and other outages were experienced. At the peak of the storm, about 46,000 customers were without power. GRU worked to restore power to approximately 84% of those customers without power within 48 hours after restoration efforts began, and 100% of those who lost service during the storm were restored by September 18, 2017. Any residual outages as a result of trees downed subsequent to the storm were dealt with on a case-by-case basis.

While there was some isolated structural damage and local area flooding, the electric system sustained no significant damage. None of GRU's power generating assets were damaged by the hurricane and the majority of the buildings were undamaged.

There were 50 customers that experienced a disruption to their drinking water service due to isolated incidents such as overturned trees. These individual customers were issued Precautionary Boil Water Notices and their water services were quickly restored. The overall water system maintained system pressure and delivered safe water throughout the incident.

The extreme rainfall and flooding had the biggest impact to the wastewater system. The flooding resulted in significant inflow of stormwater and floodwaters into the collection system which resulted in combined wastewater and stormwater overwhelming portions of the collection system. There were numerous locations that the collection system experienced overflows. GRU and private pumpers hauled over 13.8 million gallons of stormwater and wastewater from the collection system to mitigate release impact and help bring the system back to normal operation. During the hurricane and in the following days, it is estimated that approximately 3.5 million gallons of combined stormwater and wastewater were released from the collection system. It is estimated that approximately 80% (or 2.8 mg) of the release was stormwater and 20% (or 0.7 mg) was wastewater. Additionally, GRU lost power to 92 of the 170 wastewater lift stations. However, GRU was able to utilize 41 generators to keep such lift stations operational. GRU restored power to most of the GRU served lift stations by September 12, 2017. There was minimal impact to customers.

GRU coordinated with Alachua County Environmental Protection Department and the Alachua County Department of Health throughout the response and recovery to ensure public health and safety and environmental health. Immediately following the storm, GRU provided an initial notice of wastewater releases to the Florida Department of Environmental Protection ("FDEP") through the State Watch Office and the FDEP Pollution Public Notification website. Environmental assessment teams were deployed throughout the service area and regular regulatory updates and notification of significant operational changes were provided through email and FDEP Storm Tracker. On September 20, 2017, a final update was provided to all regulatory agencies summarizing environmental assessments and release volumes.

In response to wastewater overflows due to Hurricane Irma, FDEP has issued Consent Orders to numerous utilities across the State. The Florida Statutes do not offer regulatory relief for wastewater overflows for any reason, including force majeure. Since GRU responded aggressively and followed prudent utility practices to protect public health and safety and the environment, FDEP issued a Short Form Consent Order (SFCO) without Corrective Actions. The SFCO includes civil penalties based on the releases. In lieu of paying the civil penalties, GRU has elected to execute an In-Kind project that will improve the wastewater collection system. In addition, GRU is committed to reducing inflow and infiltration in the wastewater collection system and is in the process of conducting a Resiliency Study. This study will identify critical areas for infrastructure improvements and will help GRU prioritize future capital improvements. Projects identified through this study will be incorporated into the capital improvement budget and will help mitigate future wastewater releases.

The water and wastewater systems did not experience any significant damage to the facilities as a result of the storm.

GRU continues to analyze the System in order to determine if any additional capital improvements will be needed. Initial assessments indicate that the System did not sustain any material infrastructure damage. Overall, the System remains in good condition. Costs associated with any necessary repairs, in addition to the extraordinary operational costs incurred as a result of the power outages, are preliminarily estimated to be approximately \$5.5 million.

As a result of the temporary loss of service, the City estimates an initial loss of revenue in the approximate amount of \$1.1 million, which is based upon the loss of electric service to active customers for a period of four days. The impact on the customer base caused by wind and flood damage from Hurricane Irma appears to be minimal.

In addition to federal aid that may be received to assist with offsetting potential costs and loss of revenues, GRU has property insurance, including loss of income insurance, and flood insurance. GRU will be aggressively pursuing all possible insurance claims and federal aid, including FEMA reimbursements. The City also has funds in the amount of approximately \$68 million in its Rate Stabilization Fund, as well as funds in the amount of \$41 million in unrestricted cash, that can be applied, if necessary, to pay for any damages, costs, or lost revenues that GRU may incur as a result of Hurricane Irma's impacts to the System. Based on past experience, the City expects FEMA reimbursements to approximate 75% of the expenditures.

As of September 22, 2017, electric, water, wastewater and GRUcom service was restored to 100% of the service area.

At the present time, the City does not believe the impacts of Hurricane Irma will materially adversely affect its ability to pay debt service on the 2017A Bonds.

Other Risk Factors

The future financial condition of the System could be affected adversely by, among other things, legislation, environmental and other regulatory actions as set forth above, changes in demand for services, economic conditions, demographic changes, and litigation. In addition to those items listed in the preceding sentence, some of the possible changes in the future may include, but not be limited to, the following:

1. The City's electric, water and wastewater facilities are subject to regulation and control by numerous federal and state governmental agencies. Neither the City nor its consultants can predict future policies such agencies may adopt. Future changes could result in the City having to discontinue operations at certain facilities or to make significant capital expenditures and could generate substantial litigation. See "THE SYSTEM" above for more information.

2. Estimates of revenues and expenses contained in this Official Statement and the realization of such estimates, are subject to, among other things, future economic and other conditions which are unpredictable and which may adversely affect such revenues and expenses, and in turn, the payment of the 2017A Bonds.

TAX MATTERS

On March 1, 2007, Orrick, Herrington & Sutcliffe LLP, New York, New York, serving as Bond Counsel to the City (the "Initial Bond Counsel") rendered an opinion (the "Approving Opinion") to the effect that, based upon an analysis of then existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2007 Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). The Initial Bond Counsel was of the further opinion that interest on the 2007 Series A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although the Initial Bond Counsel observed that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. The Initial Bond Counsel also was of the opinion that the 2007 Series A Bonds and the interest thereon are exempt from taxation under then existing laws of the State of Florida, except as to estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations, banks and savings associations. A complete copy of the Approving Opinion is set forth in APPENDIX E-1 hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2007 Series A Bonds. The City has made certain representations and has covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2007 Series A Bonds will not be included in federal gross income. (See "APPENDIX C - Copies of the Resolution and the Eighteenth Supplemental Bond Resolution" attached hereto.) Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2007 Series A Bonds being included in gross income for federal income tax purposes, possibly from the dates of original issuance of the 2007 Series A Bonds. The Approving Opinion assumed the accuracy of these representations and compliance

with these covenants. The Initial Bond Counsel did not undertake to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to the Initial Bond Counsel's attention after the date of issuance of the 2007 Series A Bonds may adversely affect the value of, or the tax status of interest on, the 2007 Series A Bonds. Accordingly, the Approving Opinion was not intended to, and may not, be relied upon in connection with any such actions, events or matters. The Approving Opinion delivered in connection with the original issuance of the 2007 Series A Bonds has not been updated subsequent to the date of original issuance of the 2007 Series A Bonds, and Bond Counsel (as defined below) is not rendering any opinion on the original or current tax status of the 2007 Series A Bonds. Orrick, Herrington & Sutcliffe LLP has not been engaged to and has not provided any services in connection with the mandatory tender of the 2007 Series A Bonds. Orrick, Herrington & Sutcliffe LLP has not updated the Approving Opinion or expressed any opinion with respect to the current or continuing exclusion of interest on the 2007 Series A Bonds from gross income for federal income tax purposes or with respect to the mandatory tender of the 2007 Series A Bonds.

Although, as addressed in the Approving Opinion, the Initial Bond Counsel was of the opinion that interest on the 2007 Series A Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the 2007 Series A Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. In its Approving Opinion, the Initial Bond Counsel expressed no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2007 Series A Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the 2007 Series A Bonds. Prospective purchasers of the 2008 B Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which neither the Initial Bond Counsel nor Bond Counsel is expected to express no opinion.

The Approving Opinion was based on then current legal authority, covered certain matters not directly addressed by such authorities, and represented the Initial Bond Counsel's judgment as to the proper treatment of the 2007 Series A Bonds for federal income tax purposes. They are not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give, and the Initial Bond Counsel has not given, any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Unless separately engaged, neither the Initial Bond Counsel nor Bond Counsel is obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the 2007 Series A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with

which the City legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the 2008 B Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2008 B Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

Holland & Knight LLP, Bond Counsel to the City ("Bond Counsel") has delivered an opinion to the effect that the mandatory tender of the 2007 Series A Bonds will not, in and of itself, adversely affect the exclusion of interest on the 2007 Series A Bonds from gross income for purposes of federal income taxation (the "2018 No Adverse Effect Opinion"). Reference is made to the form of 2018 No Adverse Effect Opinion attached hereto as APPENDIX E-2 for the complete text thereof. Except to the limited extent expressly stated in the 2018 No Adverse Effect Opinion, subsequent to the original issuance of the 2007 Series A Bonds neither the Initial Bond Counsel nor Bond Counsel has made any investigation or review with respect to and expresses no opinion as to the current or continuing exclusion from gross income for federal income tax purposes of interest on the 2007 Series A Bonds. In rendering said 2018 No Adverse Effect Opinion, Bond Counsel was not requested, nor did it undertake, to make an independent investigation regarding the Approving Opinion or the facts or laws related to such opinion, the expenditure of 2007 Series A Bonds proceeds, to confirm that the City has complied with the certifications and representations in the various certificates or documents to which it was a party, or to review any other events which may have occurred since the 2007 Series A Bonds were issued which might affect the tax status of interest on the 2007 Series A Bonds or which might change the opinions expressed at the time the 2007 Series A Bonds were issued. The opinions of the Initial Bond Counsel and Bond Counsel represent their legal judgment based upon their review of the law and the facts that they deems relevant to render such opinions and is not a guarantee of a result. No opinion has been expressed by the Initial Bond Counsel or Bond Counsel as to whether a subsequent change in the Mode will adversely affect the exclusion from gross income for federal income tax purposes of interest on the 2007 Series A Bonds.

RATINGS

The City has received short term ratings from Moody's and Fitch of "VMIG 1" and "F1," respectively. The short term ratings on the 2007 Series A Bonds are assigned solely based on the Liquidity Facility. On the date of issuance, the 2007 Series A Bonds received underlying ratings of "AA", "Aa2" and "AA-" from S&P, Moody's and Fitch, respectively, without regard to any credit enhancement. On November 19, 2015, S&P downgraded the underlying rating to "AA-". Such underlying ratings were then affirmed by Fitch in November, 2016 and by S&P and Moody's in December, 2016. The rating agencies have not been asked to update such underlying ratings in connection with the subject remarketing.

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

There is no assurance that such ratings will be in effect for any given period of time or that such ratings will not be revised upward or downward or withdrawn entirely by such rating agencies if, in the judgment of such agencies, circumstances so warrant. Neither the Remarketing Agent nor the City has undertaken any responsibility to assure the maintenance of the rating or to oppose any such revision or withdrawal. Any such downward revision or withdrawal of ratings on the 2007 Series A Bonds may result in the suspension or termination of the Liquidity Facility. See "LIQUIDITY FACILITY" herein.

LITIGATION

[There is no litigation or other proceeding pending or, to the knowledge of the City, threatened in any court, agency or other administrative body (either state or federal) in any way questioning or affecting (i) the proceedings under which the 2007 Series A Bonds were originally issued, (ii) the validity of any provision of the 2007 Series A Bonds or the Resolution, (iii) the pledge by the City under the Resolution, (iv) the legal existence of the City or (v) the authority of the City to own and operate the System and to set utility rates.

The City is also party to various federal, state and local claims, proceedings and lawsuits for damages claimed to result from the operation of the City and the System. The City Attorney does not believe that, individually or in the aggregate, the proceedings associated with these cases will materially adversely affect the Net Revenues of the System or materially adversely impair the business, operations, or financial condition of the System or the City's ability to pay debt service on the 2007 Series A Bonds.]

CONTINGENT FEES

The City has retained Bond Counsel, Disclosure Counsel and the Financial Advisor with respect to the mandatory tender of the 2007 Series A Bonds. Payment of the fees of such professionals is contingent upon consummation of such mandatory tender.

LEGAL MATTERS

Certain legal matters were passed upon in connection with the original issuance of the 2007 Series A Bonds by the Initial Bond Counsel. A complete copy of the Initial Bond Counsel's Approving Opinion is contained in APPENDIX E-1 attached hereto. The Initial Bond Counsel has had no involvement whatsoever with respect to preparation of this Reoffering Memorandum or the mandatory tender of the 2007 Series A Bonds. Certain legal matters also were passed upon for the City in connection with the original issuance of the 2007 Series A Bonds by Marion J. Radson, Esq., Gainesville, Florida, former City Attorney of the City.

Certain legal matters in connection with the mandatory tender of the 2007 Series A Bonds were passed upon for the City by Holland & Knight LLP, Bond Counsel (see APPENDIX E-2 attached hereto), and by Nicolle M. Shalley, Esq., City Attorney. Bryant Miller Olive P.A. is Disclosure Counsel to the City.

The legal opinions delivered in connection with the 2007 Series A Bonds express the professional judgment of the attorneys rendering the opinions regarding the legal issues expressly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of the result indicated by that expression of professional judgment of the transaction on which the opinion is rendered or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

INDEPENDENT AUDITORS

The financial statements of the System as of September 30, 2017 and for the year then ended, included in APPENDIX B attached to this Reoffering Memorandum as a matter of public record and the consent of Purvis, Gray & Company LLP, independent auditors (the "Auditor") to include such documents was not requested. The Auditor was not requested to perform and has not performed any services in connection with the preparation of this Reoffering Memorandum or the issuance of the 2007 Series A Bonds.

The 2007 Series A Bonds are payable from and secured on a parity with all other bonds issued under the Resolution by a pledge of and lien on the Trust Estate. See "SECURITY FOR THE 2007 SERIES A BONDS" herein. The audited financial statements are presented for general information purposes only and speak only as of their date.

FINANCIAL ADVISOR

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

REMARKETING AGENT

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

DISCLOSURE REQUIRED BY FLORIDA BLUE SKY REGULATION

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

The City has not undertaken an independent review or investigation of securities for which it has served as conduit issuer. The City does not believe that any information about any default on such securities is appropriate and would be considered material by a reasonable investor in the 2007 Series A Bonds because the City would not have been obligated to pay the debt service on any such securities except from payments made to it by the private companies on whose behalf such securities were issued and no funds of the City would have been pledged or used to pay such securities or the interest thereon.

ACCURACY AND COMPLETENESS OF OFFERING MEMORANDUM

The references, excerpts, summaries and incorporations by reference of all resolutions, documents, statutes, and information concerning the City, the System and certain operational and statistical data referred to herein do not purport to be complete, comprehensive and definitive and each such summary and reference is qualified in its entirety by reference to each such respective documents for full and complete statements of all matters of fact relating to the 2007 Series A Bonds, the security for the payment of the 2007 Series A Bonds and the rights and obligations of the owners thereof and to each such statute, report or instrument.

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

CERTIFICATION OF OFFERING MEMORANDUM

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

CITY OF GAINESVILLE, FLORIDA

By: _____
General Manager for Utilities

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

General

The City of Gainesville (the "City"), home of the University of Florida, is located in North Central Florida midway between Florida's Gulf and the Atlantic coast. The City is approximately 125 miles north of Tampa, approximately 110 miles northwest of Orlando and approximately 75 miles southwest of Jacksonville. The Bureau of Economic and Business Research at the University of Florida estimated a 2017 population of 260,003 in the Alachua County (the "County") with an estimated 129,816 persons residing 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 oldest university and, with approximately 50,000 students, is one of the largest universities in the nation.

Organization and Administration

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

The following are the current members of the City Commission:

	<u>Term Expires</u>
Mayor Lauren Poe, At Large	May 2019
Commissioner David Arreola, District 3.....	May 2020
Commissioner Adrian Hayes-Santos, District 4.....	May 2019
Commissioner Gail Johnson, At Large.....	May 2021
Commissioner Gigi Simmons, District 1	May 2021
Commissioner Harvey Ward, District 2	May 2020
Commissioner Helen K. Warren, At-Large	May 2020

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

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

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

Population

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

POPULATION GROWTH

Year	City of	Percentage	Alachua	Percentage	State of	
	Gainesville	Increase	County	Increase	Florida	Percentage
	<u>Population</u>		<u>Population</u>		<u>Population</u>	<u>Increase</u>
2017	129,816	--	260,003	--	20,484,142	--
2020	n/a ⁽¹⁾	n/a	267,727	4.1%	21,372,207	6.1%
2030	n/a ⁽¹⁾	n/a	289,502	8.1	24,070,978	12.6
2040	n/a ⁽¹⁾	n/a	309,385	6.9	26,252,141	9.1

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

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

Employment

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

EMPLOYMENT

Year	<u>Unemployment Rate</u>
2008	4.70
2009	7.40
2010	8.30
2011	8.10
2012	6.90
2013	5.30
2014	4.90
2015	4.50
2016	4.20
2017	3.50

Source: Source: Finance Department, City of Gainesville, Florida.

**TEN LARGEST EMPLOYERS
(SEPTEMBER 30, 2017)**

<u>Firm</u>	<u>Product/Business</u>	<u>Employees</u>
University of Florida	Education	27,567
UF Health	Health Care	12,705
Veterans Affairs Medical Center	Health Care	6,127
Alachua County School Board	Education	3,904
City of Gainesville	Municipal Government	2,072
North Florida Regional Medical Center	Health Care	2,000
Gator Dining Services	Food Services	1,200
Nationwide Insurance Company	Insurance	960
Alachua County	Government	809
Publix Supermarkets	Grocer	780

Source: Finance Department, City of Gainesville, Florida.

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Property Tax Data

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

**ASSESSED VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS**

Fiscal Year Ended	Just Value						Exemptions				Total Taxable Assessed Value	Total Direct Tax Rate
	Tax Year	Real Property	Personal Property	Centrally Assessed Property	Governmental	Agricultural	Institutional	Homestead	Other (1)			
09/30 2007	2007	\$10,059,735,400	\$1,931,740,674	\$1,111,824	\$4,354,225,897	\$28,451,900	\$574,033,101	\$1,385,629,369	\$16,885,367	\$5,633,362,264	4.2544	
2008	2008	10,599,500,250	1,732,004,529	1,149,322	4,195,267,980	35,549,700	647,733,978	1,773,423,757	14,341,607	5,666,337,079	4.2544	
2009	2009	10,534,674,944	2,245,414,910	1,234,487	4,251,801,982	39,408,200	874,389,881	1,594,957,710	134,747,020	5,886,019,548	4.3963	
2010	2010	10,570,350,300	2,241,373,073	987,726	4,815,548,071	37,517,700	896,937,822	1,313,405,085	141,081,893	5,608,220,528	4.2544	
2011	2011	10,756,478,800	2,308,068,145	1,130,083	5,343,081,038	39,115,900	1,029,746,160	1,134,254,774	117,240,859	5,402,238,297	4.2544	
2012	2012	10,437,604,712	2,386,565,278	1,073,991	5,408,327,315	37,576,500	1,112,522,902	993,996,869	109,161,684	5,163,658,711	4.4946	
2013	2013	10,480,490,440	2,587,608,797	2,138,554	5,609,545,384	39,389,400	1,095,790,104	916,778,157	234,075,511	5,174,659,235	4.5780	
2014	2014	10,508,455,900	2,979,114,148	2,210,823	5,603,063,413	39,298,000	1,129,921,784	895,414,243	178,766,271	5,643,317,160	4.5079	
2015	2015	10,815,607,700	2,912,715,109	2,251,700	5,651,530,893	40,988,400	1,094,785,940	992,344,032	181,396,571	5,769,528,673	4.5079	
2016	2016	11,183,742,495	3,179,982,350	2,303,808	5,923,396,413	42,466,700	1,065,499,494	1,041,502,131	267,520,476	6,025,643,439	4.5079	

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

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

**HISTORY OF LOCAL AD VALOREM
TAX RATES AND TAX LEVIES**

Tax Roll Year ⁽¹⁾	City Fiscal Year ⁽²⁾	Net Taxable Value for Local Levies ⁽³⁾	Local Property Tax Rates (Mills) General Government ⁽⁴⁾	Local Property Tax Levies (\$) General Government	Total Taxes Levied
2006	2006-07	\$4,969,172,232	4.8509	\$24,104,957	\$24,104,957
2007	2007-08	5,633,362,264	4.2544	23,966,576	23,966,576
2008	2008-09	5,666,337,079	4.2544	24,106,864	24,106,864
2009	2009-10	5,886,019,548	4.3963	25,876,708	25,876,708
2010	2010-11	5,608,220,528	4.2544	23,859,613	23,859,613
2011	2011-12	5,402,238,297	4.2544	22,983,283	22,983,283
2012	2012-13	5,163,658,711	4.4946	23,208,580	23,208,580
2013	2013-14	5,174,659,235	4.5780	23,689,590	23,689,590
2014	2014-15	5,643,317,160	4.5079	25,439,509	25,439,509
2015	2015-16	5,769,528,673	4.5079	26,008,458	26,008,458
2016	2016-17	6,025,643,439	4.5079	26,153,549	26,153,549

(1) Tax roll year as of January 1.

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

(3) Sum of real and personal property value.

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

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

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

**PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS**

Fiscal Year Ended September 30,	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2008	\$23,854,419	\$23,035,894	96.6%	\$38,651	\$23,074,545	96.7%
2009	24,020,009	23,191,605	96.6	59,492	23,251,097	96.8
2010	25,782,262	24,912,341	96.6	78,396	24,990,737	96.9
2011	23,802,971	23,007,885	96.7	25,880	23,033,765	96.8
2012	22,865,258	22,085,295	96.6	62,971	22,148,266	96.9
2013	23,164,346	22,259,404	96.1	87,462	22,346,866	96.5
2014	23,556,658	22,573,803	95.8	122,992	22,696,795	96.3
2015	25,408,150	24,342,225	95.8	57,859	24,400,084	96.0
2016	25,989,724	24,924,172	95.9	27,208	24,951,380	96.0
2017	27,150,814	26,030,596	95.9	N/A	26,030,596	95.9

Source: Finance Department, City of Gainesville, Florida.

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

Fiscal Year	Tax Year	City of Gainesville Direct Rate	Alachua County School District	Overlapping Rates			Total Direct & Overlapping Rates
				Alachua County Water Management District	St. Johns Water Management District	Alachua County Library District	
2008	2007	4.2544	7.8968	8.3950	0.4158	1.3560	22.3180
2009	2008	4.2544	7.8208	8.3590	0.4158	1.3406	22.1906
2010	2009	4.3963	8.2995	9.4080	0.4158	1.3771	23.8967
2011	2010	4.2544	8.6263	9.1070	0.4158	1.4736	23.8771
2012	2011	4.2544	8.5956	9.0920	0.3313	1.4790	23.7523
2013	2012	4.4946	8.5956	8.5490	0.3313	1.4768	23.4473
2014	2013	4.5780	8.7990	8.4020	0.3283	1.4588	23.5661
2015	2014	4.5079	8.7990	8.4100	0.3164	1.4588	23.4921
2016	2015	4.5079	8.7950	8.3420	0.3023	1.4538	23.3830
2017	2016	4.7474	8.4648	7.6250	0.2724	1.2655	22.3751

Source: Finance Department, City of Gainesville, Florida.

The following table sets forth certain information regarding direct and overlapping debt for the City, as of September 30, 2017.

OVERLAPPING GENERAL OBLIGATION DEBT⁽¹⁾

Taxing Authority	Taxable Property Value ⁽²⁾	General Obligation Bonded Debt ⁽³⁾	Percent of Debt Applicable to City ⁽⁴⁾	City's Share of General Obligation Debt ⁽⁵⁾
City of Gainesville	\$6,025,643,439	\$0	100.00%	\$0
Alachua County	0	0	n/a	0
Alachua County School Board	0	0	0	0
Alachua County Library District	0	0	0	0
				<u>\$0</u>

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

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

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

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

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

Source: Finance Department, City of Gainesville, Florida.

**OVERLAPPING SELF SUPPORTING AND
NON-SELF SUPPORTING DEBT**

As of September 30, 2017

<u>Taxing Authority</u>	<u>Self Supporting</u>	<u>Non-Self Supporting</u>	<u>Totals</u>
Alachua County ⁽¹⁾		\$64,777,220	\$64,777,220
Alachua County Schools		56,412,724	56,412,724
Alachua County Library District ⁽¹⁾		0	0
City of Gainesville:			
Utilities	930,440,000	0	930,440,000
Other than Utilities	1,502,220	125,524,025	127,026,265

Source: Finance Department, City of Gainesville, Florida.

**DEBT SUMMARY⁽¹⁾
AS OF SEPTEMBER 30, 2017**

	<u>Gross</u>	<u>Net</u>
General Obligation Debt	\$0	\$0
Debt Payable from Non-Ad Valorem Revenues ⁽²⁾	125,524,025	125,524,025
General Obligation Overlapping Debt ⁽³⁾	<u>0</u>	<u>0</u>
Total	\$125,524,025	\$125,524,025

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

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

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

Source: Finance Department, City of Gainesville, Florida.

PRINCIPAL TAXPAYERS

Tax Roll Year 2017

<u>Owner/Taxpayer</u>	<u>Total Assessed</u>	<u>Percentage of Total Taxable Assessed</u>
Gainesville Renewable Energy Center Inc.	\$301,247,900	5.00%
Oaks Mall Gainesville LTD	137,399,380	2.28
HCA Health Services of Florida, Inc.	80,328,240	1.33
Stanley Robert E	63,165,500	1.05
AT&T Mobility LLC	61,263,706	1.02
North Florida Regional Medical Center Inc.	57,660,710	0.96
Oak Hammock at the University of Florida, Inc.	55,555,790	0.92
CoxComm LLC.	37,508,473	0.62
CH Realty VII-Preiss SH Gainesville Cabana Beach, LLC	36,237,700	0.60
Sivance LLC	35,638,240	0.59
TOTAL PRINCIPAL TAXPAYERS	\$866,005,639	14.37%

Source: Finance Department, City of Gainesville, Florida.

LIABILITIES OF THE CITY

Insurance Considerations Affecting the City

General

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

Workers' Compensation, Auto, and General Liability Insurance

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

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

All funds other than the System enterprise fund (the "Utility Fund") participate in the general insurance program. Risk management/insurance related activities of the Utility Fund are accounted for within the Utility Fund. The Utility Fund purchases plant and machinery insurance from a commercial carrier. In addition, an actuarially computed liability of \$3,337,000 is recorded in the Utility Fund as a fully amortized deferred credit. The present value calculation assumes a rate of return of 4.5% with a confidence level of 75%. All claims for fiscal year 2017 were paid from current year's revenues.

Changes in the Utility Fund's claims liability for fiscal years 2017 and 2016 were as follows:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Incurred</u>	<u>Payments</u>	<u>End of Fiscal Year Liability</u>
2016-2017	\$3,337,000	\$2,253,000	\$2,253,000	\$3,337,000
2015-2016	3,337,000	1,178,000	1,178,000	3,337,000

There is a claims liability of \$6,854,000 included in the General Insurance Fund as the result of actuarial estimates. Changes in the General Insurance Fund's claims liability for fiscal years 2016 and 2017 were as follows:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Incurred</u>	<u>Payments</u>	<u>End of Fiscal Year Liability</u>
2016-2017	\$6,854,000	\$2,466,244	\$2,466,244	\$6,854,000
2015-2016	6,854,000	2,280,237	2,280,237	6,854,000

Health Insurance

The City is also self-insured for its Employee Health and Accident Benefit Plan (the "Plan"). The Plan is accounted for in an internal service fund and is externally administered, for an annually contracted amount which is based upon the volume of claims processed. Contributions for City employees and their dependents are shared by the City and the employee. Administrative fees are paid primarily out of this fund. Stop-loss insurance is maintained for this program at \$300,000 per individual. No claims have exceeded insurance coverage in the last three years. Changes in claims liability for fiscal years 2016 and 2017 were as follows:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Incurred</u>	<u>Payments</u>	<u>End of Fiscal Year Liability</u>
2016-2017	\$1,310,671	\$21,883,325	\$21,883,325	\$1,310,671
2015-2016	1,310,671	24,243,566	24,243,566	1,310,671

Other Post-Employment Benefit & Retiree Health Care Plan

Plan Description.

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

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

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

The RHCP has 746 retirees receiving benefits, 1,052 retirees not currently electing medical coverage and has a total of 1,867 active participants and 133 DROP participants for a total of 3,798. Ordinance 991457 of the City assigned the authority to establish and amend benefit provisions to the City Commission.

Annual OPEB Cost and Net OPEB Obligation

For the fiscal year ended September 30, 2017, the City's annual Other Post-Employment Benefit ("OPEB") cost for the RHCP was \$2,481,058. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years ended September 30, 2017 were as follows:

Annual required contribution	\$1,820,901
Interest on net OPEB obligation	(1,531,517)
Adjustment to annual required contribution	2,191,674
Annual OPEB cost	2,481,058
Contributions made	1,622,729
Change in net OPEB obligation (asset)	\$858,329
Net OPEB obligation (asset), beginning of year	(18,907,614)
Net OPEB obligation (asset), end of year	\$(18,049,285)

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net Ending OPEB Obligation (Asset)</u>
09/30/15	\$3,585,790	\$2,972,451	82.90%	\$(17,669,214)
09/30/16	1,677,380	2,915,780	173.83	(18,907,614)
09/30/17	2,481,058	1,622,729	65.40	(18,049,284)

Fiscal year ended September 30, 2005 was the year of implementation of GASB 43 and 45 and the City elected to implement prospectively. The City's contributions include \$1,006,642, \$2,375,230 and \$2,441,107 in payments made by the City for the implicit rate subsidy included in the blended rate premiums for active employees which fund the implicit rate subsidy discount provided to the retirees for fiscal years ended September 30, 2017, 2016 and 2015, respectively.

Funding Policy

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

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

contributes the premium cost each month, less the RHCP subsidy calculated as a percentage of the individual premium.

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

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

In September 2008, the City approved Ordinance No. 0-08-52, terminating the existing program and trust and creating a new program and trust, effective January 1, 2009. This action changed the benefits provided to retirees, such that the City will contribute towards the premium of those who retire after August 31, 2008 under a formula that provides ten dollars per year of credited service, adjusted for age at first access of the benefit. Current retirees receive a similar benefit, however the age adjustment is modified to be set at the date the retiree first accesses the benefit or January 1, 2009, whichever is later. For current retirees that are 65 or older as of January 1, 2009, the City's contribution towards the premium will be the greater of the amount calculated under this method or the amount provided under the existing ordinance. The City's contribution towards the premium will be adjusted annually at the rate of 50% of the annual percentage change in the individual premium compared to the prior year.

Actuarial Methods and Assumptions

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

In the October 1, 2015 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions used included an 8.2% investment rate of return, compounded annually, net of investment expenses. The annual healthcare cost trend rate of 4.5% is the ultimate rate, which decreased from 6% from the prior year. The select rate was 12% but was decreased to the ultimate rate in 2002. Both the rate of return and the healthcare cost trend rate include an assumed inflation rate of 3.75%.

The actuarial valuation of RHCP assets was set at fair market value of investments as of the measurement date. The RHCP's initial unfunded actuarial accrued liability ("UAAL") as of 1994 is being

amortized as a level percentage of projected payroll over a closed period of twenty years from 1994 and changes in the UAAL from 1994 through 2003 are amortized over the remaining portion of the twenty-year period. Future changes in the UAAL will be amortized on an open period of ten years from inception.

Funded Status

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll (b-a)/c
9/30/17	\$63,500,353	\$67,590,558	\$4,090,205	93.95%	\$122,798,859	3.33%

[Ability to be Sued, Judgments Enforceable

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

Debt Issuance and Management

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

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Direct Debt

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

	Principal Amount Issued	Principal Amount Outstanding as of October 1, 2017
Revenue Bonds: ⁽¹⁾		
Guaranteed Entitlement Revenue and Refunding Bonds, Series 1994	\$15,892,220	\$1,502,220
Taxable Pension Obligation Bonds, Series 2003A (Employees' Plan)	40,042,953	31,479,045
Taxable Pension Obligation Bonds, Series 2003B (Consolidated Plan)	49,851,806	41,385,000
Guaranteed Entitlement Revenue and Refunding Bonds, Series 2004	9,805,000	0
Capital Improvement Revenue Bonds, Series 2010	3,036,907	2,185,177
Capital Improvement Revenue Bonds, Series 2014	<u>12,535,000</u>	<u>11,221,635</u>
Total Revenue Bonds ⁽²⁾	\$131,063,886	\$87,773,077
Loans: ⁽³⁾		
Capital Improvement Revenue Note, Series 2009	11,500,000	1,220,000
Refunding Revenue Note, Series 2011	6,230,000	3,220,000
Capital Improvement Revenue Note, Series 2011A	3,730,000	1,625,000
Refunding Revenue Note, Series 2014	14,715,000	11,810,000
Revenue Refunding Note, Series 2016A	11,007,000	11,920,000
Capital Improvement Revenue Note, Series 2016B	<u>6,630,000</u>	<u>6,630,000</u>
Total Loans	\$53,812,000	\$36,425,000
Total Debt	<u>\$184,875,886</u>	<u>\$124,198,077</u>

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

(2) Does not include the CP Notes.

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

Defined Benefit Pension Plans

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

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

Employees' Plan

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

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

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

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

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

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

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

Employees are eligible for normal retirement:

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

Employees are eligible for early retirement:

- If the date of hire occurred on or before 10/01/2012, after accruing 15 years of pension service credit and reaching age 55 while still employed.
- If the date of hire was on or after 10/02/2012, after accruing 20 years of pension service credit and reaching age 60 while still employed.
- Under the early retirement option, the benefit is reduced by 5/12th of one percent for each month (5% for each year) by which the retirement date is less than the date the employee would reach age 65.

Employees receive a deferred vested benefit if they are terminated after accruing five years of pension service credit but prior to eligibility for regular retirement. Those employees will be eligible to receive a benefit starting at age 65.

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

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

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

Death benefits are paid as follows:

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

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

Employees covered by benefit terms. At September 30, 2017, the following employees were covered by the benefit terms:

Active employees	1,519
Inactive employees:	
Retirees and beneficiaries currently receiving benefits	1,266
Terminated Members and survivors of deceased members entitled to benefits but not yet receiving benefits	<u>428</u>
Total	3,213

Contribution Requirements. The contribution requirements of plan members and the City are established and may be amended by City Ordinance approved by the City Commission. The City is required to contribute at an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by

employees during the year, with an additional amount to finance any unfunded accrued liability. The City contributes the difference between the actuarially determined rate and the contribution rate of employees. Plan members are required to contribute 5% of their annual covered salary. The rate for fiscal year 2017 was 17.45% of covered payroll. This rate was influenced by the issuance of the Taxable Pension Obligation Bonds, Series 2003A. The proceeds from this issue were utilized to retire the unfunded actuarial accrued liability at that time in the Employees' Plan. Differences between the required contribution and actual contribution are due to actual payroll experiences varying from the estimated total payroll used in the generation of the actuarially required contribution rate. Administrative costs are financed through investment earnings.

Net Pension Liability. The net pension liability related to the Employee's Plan was measured as of September 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2016.

The components of the net pension liability at September 30, 2017 were as follows:

Components of Net Pension Liability

Total pension liability	\$537,712,710
Plan fiduciary net position	(396,313,562)
City's net pension liability	<u>\$141,399,148</u>
 Plan fiduciary net position as a percentage of the total pension liability	73.70%

Significant Actuarial Assumptions. The total pension liability as of September 30, 2017 was determined based on a roll-forward of entry age normal liabilities from the October 1, 2016 actuarial valuation to the pension plan's fiscal year end of September 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial Assumptions

Inflation	3.75%
Salary Increases	3.00% to 5.00%
Investment Rate of Return	8.10%, net of pension investment expenses

Mortality Rate:

Mortality rates were updated to the assumptions used in the 2016 FRS valuation as it applies to "other than special risk" participants.

Long-term Expected Rate of Return:

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

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

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

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

Discount Rate:

The discount rates used to measure the total pension liability were 8.10% as of September 30, 2017. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the actuarially determined contribution rates less the member contributions. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension <u>Liability</u>	Plan Fiduciary <u>Net Position</u>	Net Pension <u>Liability</u>
Balances at 10/01/2016	\$499,347,420	\$357,298,271	\$142,049,149
Changes for the year:			
Service cost	8,355,553	-	8,355,553
Interest	39,789,214	-	39,789,214
Differences between expected and actual experience	7,646,058	-	7,646,058
Transfer from terminated Disability Plan	-	-	-
Changes to assumptions	21,043,627	-	21,043,627
Contributions -- employer	-	14,654,934	(14,654,934)
Contributions -- employee	-	4,829,122	(4,829,122)
Net investment income	-	58,605,302	(58,605,302)
Benefit payments, including refunds and DROP payouts	(38,469,162)	(38,469,162)	-
Administrative expense	-	(604,905)	604,905
Net changes	<u>38,365,290</u>	<u>39,015,291</u>	<u>(650,001)</u>
			<u>\$141,399,148</u>
Balances at 09/30/2017	<u>\$537,712,710</u>	<u>\$396,313,562</u>	<u>8</u>

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

The following presents the net pension liability, calculated using the discount rate of 8.1%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (7.1%) or 1 percentage-point higher (9.1%) than the current rate:

	1% Decrease (7.1%)	Current Discount Rate (8.1%)	1% Increase (9.1%)
Net pension liability	\$202,787,977	\$141,399,148	\$89,907,875

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

Pension expense and deferred outflows of resources and deferred inflows of resources. For the year ended September 30, 2017, the City recognized pension expense for the Employees' Plan of \$22,320,071. At September 30, 2017, the City reported deferred outflows of resources related to the Employees' Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$7,719,277	\$-

Changes to assumptions	27,523,573	-
Changes between projected and actual investment	<u>12,456,239</u>	<u>(31,349,541)</u>
Total	<u>\$47,699,089</u>	<u>\$(31,349,541)</u>

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

<u>Fiscal Year</u>	<u>Net Deferred Outflows/(Inflows) of Resources</u>
2018	7,859,825
2019	7,859,828
2020	1,382,370
2021	(752,473)
Thereafter	

Consolidated Plan

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

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

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

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

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

Employees are eligible for normal retirement:

- o If the date of hire occurred prior to 07/01/2013, after accruing 20 years of pension service credit, regardless of age or after accruing 10 years of pension service

credit and reaching age 55 while still employed, or attaining a combination of credited service and age that equals seventy (Rule of Seventy).

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

Employees are eligible for early retirement:

- After accruing 10 years of pension service credit and reaching age 50 while still employed.

- Under the early retirement option, the benefit is reduced 3% for each year by which the retirement date is less than the date the employee would reach age 55.

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

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

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

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

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

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

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

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

Retirement eligibility for Firefighters is as follows:

Employees are eligible for normal retirement:

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

Employees are eligible for early retirement:

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

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

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

- If the retiree had at least 25 years of credited service upon retirement, COLA begins after reaching age 55.
- If the retiree had 20 years of credited service upon retirement, COLA begins after reaching age 62.
- If the retiree retired under the Rule of Seventy with less than 20 years of credited service upon retirement, COLA begins after age 62.

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

Death benefits are paid as follows:

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

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

Employees covered by benefit terms. At September 30, 2017, the following employees were covered by the benefit terms:

Active employees	393
Inactive employees:	
Retirees and beneficiaries currently receiving benefits	427
Vested terminated members entitled to future benefits	<u>20</u>
Total	840

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

The City is required to contribute at an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Firefighters contribute 9.0% of gross pay and Police Officers contribute 7.5% of gross pay. The City's contribution rate for fiscal year 2017 was 15.76% of covered payroll for police personnel and 20.31% for fire personnel. This rate was influenced by the issuance of the Taxable Pension Obligation Bonds, Series 2003B. In addition, State contributions, which totaled \$1,258,283, are also made to the plan on behalf of the City under Chapters 175/185, Florida Statutes. These State contributions are recorded as revenue and personnel expenditures in the City's General Fund before they are recorded as contributions in the Consolidated Pension Fund. Differences between the required contribution and actual contribution are due to actual payroll experiences varying

from the estimated total payroll used in the generation of the actuarially required contribution rate. Administrative costs are financed through investment earnings.

Net Pension Liability. The net pension liability related to the Consolidated Plan was measured as of September 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2016.

The components of the net pension liability at September 30, 2017 were as follows:

Components of Net Pension Liability

Total pension liability	\$277,576,074
Plan fiduciary net position	<u>(241,763,801)</u>
City's net pension liability	<u>\$35,812,273</u>
Plan fiduciary net position as a percentage of the total pension liability	87.10%

Significant Actuarial Assumptions. The total pension liability as of September 30, 2017 was determined based on a roll-forward of entry age normal liabilities from the October 1, 2016 actuarial valuation, using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial Assumptions

Inflation	3.00%
Salary Increases for police employees with less than 5 years of service	6.00%
Salary Increases for fire employees with less than 5 years of service	5.00%
Salary Increases for police employees with 5 to 9 years of service	5.00%
Salary Increases for fire employees with 5 to 9 years of service	4.00%
Salary Increases for police employees with 10 to 14 years of service	4.00%
Salary Increases for fire employees with 10 to 14 years of service	3.00%
Salary Increases for police employees with more than 14 years of service	3.00%
Salary Increases for fire employees with more than 14 years of service	2.00%
Investment Rate of Return	8.10%, net of pension investment expenses

Mortality Rate:

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

Other Assumptions:

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

growth assumptions were updated in 2012 and investments were reviewed by the Board in February of 2015 based on an asset liability study reflecting the current investment policy.

Long-Term Expected Rate of Return:

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

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

Development of Long Term Discount Rate – Arithmetic

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

Discount Rate:

The discount rate used to measure the total pension liability was 8.1%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the actuarially determined contribution rates less the member and State contributions. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension <u>Liability</u>	Plan Fiduciary <u>Net Position</u>	Net Pension <u>Liability</u>
Balances at 10/01/2016	\$263,488,192	\$219,000,182	\$44,488,010
Changes for the year:			
Service cost	4,254,335	-	4,254,335
Interest	21,463,554	-	21,463,554
Differences between expected and actual experience	2,311,687	-	2,311,687
Changes to assumptions	2,158,450	-	2,158,450
Contributions - employer	-	4,294,312	(4,294,312)
Contributions - employee	-	2,024,693	(2,024,693)
Contributions - state	-	1,254,172	(1,254,172)
Net investment income	-	31,854,789	(31,854,789)
Benefit payments, including refunds and DROP payouts	(16,100,144)	(16,100,144)	-
Administrative expense	-	(564,203)	564,203
Net changes	14,087,882	22,763,619	(8,675,737)
Balances at 09/30/2017	<u>\$277,576,074</u>	<u>\$241,763,801</u>	<u>\$35,812,273</u>

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

The following presents the net pension liability, calculated using the discount rate of 8.1%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (7.1%) or 1 percentage-point higher (9.1%) than the current rate:

	1% Decrease (7.1%)	Current Discount Rate (8.1%)	1% Increase (9.1%)
Net pension liability	\$68,232,826	\$35,812,273	\$8,957,911

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

Pension expense and deferred outflows of resources and deferred inflows of resources. For the year ended September 30, 2017, the City recognized pension expense for the Consolidated Plan of \$1,676,563. At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to the Consolidated Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflow of Resources
Difference between expected and actual experience	\$-	\$(4,959,714)
Changes in assumptions	4,820,848	-

Difference between projected and actual investment earnings	10,552,283	(6,852,923)
Contributions after measurement date	<u>4,294,312</u>	<u>-</u>
Total	<u>\$19,667,443</u>	<u>\$(11,812,637)</u>

The \$4,294,312 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Consolidated Plan will be recognized in pension expense as follows:

<u>Fiscal Year</u>	
2017	\$1,612,733
2018	1,612,732
2019	2,209,101
2020	(1,688,012)
Thereafter	(186,060)

APPENDIX B

AUDITED FINANCIAL STATEMENTS

APPENDIX C-1

COMPOSITE OF THE RESOLUTION

APPENDIX C-2

SPRINGING AMENDMENTS TO THE RESOLUTION

APPENDIX D

DEBT SERVICE REQUIREMENTS

APPENDIX E-1

2007 SERIES A BONDS APPROVING OPINION OF
ORRICK, HERRINGTON & SUTCLIFFE LLP

APPENDIX E-2

2018 NO ADVERSE EFFECT APPROVING OPINION OF BOND COUNSEL