Item #120097
EXHIBIT K
OH&S Draft 6/14/2012

NEW ISSUE – BOOK–ENTRY ONLY

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2012 Series B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the 2012 Series B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2012 Series B Bonds. See "TAX MATTERS" herein.

$_____
City of Gainesville, Florida
Variable Rate
Utilities System Revenue Bonds
2012 Series B
(CUSIP No. _____)

Dated: Date of Delivery **Due: October 1, 2042**

The Variable Rate Utilities System Revenue Bonds, 2012 Series B (the "2012 Series B Bonds") will be issued as fully registered bonds and, when initially issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2012 Series B Bonds. Individual purchases of 2012 Series B Bonds will be made in book-entry form only, in the Authorized Denominations referred to herein. See "BOOK-ENTRY ONLY SYSTEM" in APPENDIX A hereto. U.S. Bank Trust National Association, New York, New York is Trustee and Paying Agent under the Resolution (as defined herein) and has been appointed by the City as the initial Tender Agent for the 2012 Series B Bonds. J.P. Morgan Securities LLC (the "Underwriter") has been appointed by the City as the initial Remarketing Agent for the 2012 Series B Bonds.

The 2012 Series B Bonds will bear interest at variable rates, as more fully described herein. Initially, the 2012 Series B Bonds will bear interest at [Daily] Rates, determined as described herein. While the 2012 Series B Bonds bear interest at [Daily] Rates, interest will be payable on the first Business Day each calendar month. As more fully described herein, the Interest Mode (as defined herein) applicable to the 2012 Series B Bonds may be changed at the election of the City of Gainesville, Florida (the "City").

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

Liquidity support in connection with tenders for purchase of 2012 Series B Bonds (in an amount equal to the principal amount thereof plus 36 days' interest thereon computed at a rate per annum of twelve percent and on the basis of a 365-day year) will be provided initially by JPMorgan Chase Bank, National Association (the "Bank") pursuant to a standby bond purchase agreement between the Bank and the City (the "Initial Liquidity Facility"). The obligation of the Bank to purchase 2012 Series B Bonds under the Initial Liquidity Facility will be subject to certain conditions, and such obligation may be terminated without prior notice under certain circumstances. The Initial Liquidity Facility will have an initial stated termination date of December 31, 2014. The purchase price of 2012 Series B Bonds tendered or deemed tendered for purchase is payable solely from the proceeds of the remarketing thereof and moneys drawn under the Liquidity Facility then in effect, and is not payable from any funds of the City.

The 2012 Series B Bonds are being issued by the City to (i) refund certain of the City's outstanding fixed and variable rate Utilities System Revenue Bonds more particularly described herein and (ii) pay costs of issuance related to the 2012 Series B Bonds.

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

PRICE – 100%

The 2012 Series B Bonds are offered when, as and if issued and received by the Underwriter, subject to approval of legality by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel to the City. Certain legal matters will be passed upon for the City by Marion J. Radson, Esq., City Attorney, for the Underwriter by Nixon Peabody LLP, New York, New York and for the Bank by Nixon Peabody LLP, New York, New York. It is expected that the 2012 Series B Bonds in definitive form will be available for delivery to DTC in New York, New York on or about August 2, 2012.

J.P. Morgan

_____ __, 2012

CITY OF GAINESVILLE, FLORIDA

CITY OFFICIALS

Craig Lowe ..... Mayor
William Thomas Hawkins ..... Mayor Pro-Tem, Commissioner
Yvonne Hinson-Rawls ..... Commissioner
Susan Bottcher ..... Commissioner
Lauren Poe ..... Commissioner
Randolf M. Wells ..... Commissioner
Todd N. Chase ..... Commissioner

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

Utilities System

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

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CONSULTANTS

Orrick, Herrington & Sutcliffe LLP
New York, New York
Bond Counsel

Public Financial Management, Inc.
Philadelphia, Pennsylvania
Financial Advisor

This Official Statement does not constitute an offer to sell the 2012 Series B Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the 2012 Series B Bonds, and, if given or made, such information or representation must not be relied upon.

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

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

THE UNDERWRITER HAS ADVISED THE CITY THAT IN CONNECTION WITH THE OFFERING OF THE 2012 SERIES B BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2012 SERIES B BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The CUSIP number indicated on the cover page of this Official Statement has been assigned by an organization not affiliated with the City and is included solely for the convenience of the holders of the 2012 Series B Bonds. The City is not responsible for the selection or uses of this CUSIP number, nor is any representation made as to its correctness in the 2012 Series B Bonds or as indicated on the cover page of this Official Statement.

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Official Statement

relating to

$_____
City of Gainesville, Florida
Variable Rate
Utilities System Revenue Bonds
2012 Series B

INTRODUCTORY STATEMENT

General

This Official Statement, which includes the cover page and inside cover page hereof and the appendices attached hereto, provides certain information in connection with the issuance by the City of Gainesville, Florida ("Gainesville" or the "City") of its $_____ Variable Rate Utilities System Revenue Bonds, 2012 Series B (the "2012 Series B Bonds"). The City's mailing address is Utilities Administration Building, Post Office Box 147117, Gainesville, Florida 32614-7117. The City can be reached by telephone at (352) 334-3400.

The City is issuing the 2012 Series B Bonds (a) to refund certain of the City's outstanding fixed and variable rate Utilities System Revenue Bonds more particularly described in "PLAN OF FINANCE" herein and (b) to pay costs of issuance of the 2012 Series B Bonds. See "PLAN OF FINANCE" and "SOURCES AND USES OF FUNDS" herein.

The City, located in Alachua County in north-central Florida (the "County"), is a municipal corporation of the State of Florida (the "State"), organized and existing under the laws of the State including the City's Charter, Chapter 90-394, Laws of Florida, 1990, as amended (the "Charter"). The 2012 Series B Bonds are being issued pursuant to the Utilities System Revenue Bond Resolution adopted by the City on June 6, 1983, as amended, supplemented and restated (the "Resolution"), including as supplemented by the Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution (the "Twenty-Fifth Supplemental Resolution"), authorizing the 2012 Series B Bonds, adopted by the City on June 21, 2012; Chapter 166, Part II, Florida Statutes; and the Charter. U.S. Bank Trust National Association (formerly First Trust of New York, National Association) currently is Trustee, Paying Agent and Bond Registrar under the Resolution.

The 2012 Series B Bonds will be payable from and secured on a parity with all other bonds issued under the Resolution by a pledge of and lien on the Trust Estate (hereinafter defined). As of October 1, 2011 there were, and as of the date of this Official Statement there are, $932,125,000 aggregate principal amount of bonds Outstanding under (and as defined in) the Resolution. As more fully described under "PLAN OF FINANCE" herein, concurrently with the issuance of the 2012 Series B Bonds, the City expects to issue $_____in aggregate principal amount of its Utilities System Revenue Bonds, 2012 Series A (the "2012 Series A Bonds"). The 2012 Series A Bonds are being issued to provide funds to refund (a) $[1,605,000] in aggregate principal amount of the City's outstanding Utilities System Revenue Bonds, 2003 Series A (the "2003 Series A Bonds") and (b) $[44,675,000] in aggregate principal amount of the City's outstanding Utilities System Revenue Bonds, 2005 Series A (the "2005 Series A Bonds"), both of which were issued to finance or refinance costs of acquisition and construction of improvements to the to the electric system, natural gas system, water system, wastewater system and telecommunications system owned by the City and operated as a single combined public utility (the "System" or "Gainesville Regional Utilities" ("GRU")). The 2012 Series A Bonds will constitute "Bonds" within the meaning of the Resolution, and will be on a parity with the 2012 Series B Bonds as to security and source of payment. The 2012 Series A Bonds are being offered pursuant to a separate official statement, and are not being offered hereby. The 2012 Series B Bonds, the

bonds to be outstanding after the date of issuance of the 2012 Series B Bonds and any additional parity bonds which may be issued in the future are referred to herein collectively as the "Bonds."

For a more detailed discussion of the City's outstanding debt, its plan of financing and the debt to be outstanding after the issuance of the 2012 Series B Bonds, see "PLAN OF FINANCE," "OUTSTANDING DEBT" and "ADDITIONAL FINANCING REQUIREMENTS" herein.

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

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

Liquidity support in connection with tenders for purchase of 2012 Series B Bonds initially will be provided by JPMorgan Chase Bank, National Association (the "Bank"), pursuant to a standby bond purchase agreement, dated as of August 1, 2012, to be entered into between the City and the Bank (the "Initial Liquidity Facility"). The obligation of the Bank to purchase 2012 Series B Bonds under the Initial Liquidity Facility will be subject to certain conditions, and such obligation may be terminated without prior notice under certain circumstances. See "THE INITIAL LIQUIDITY FACILITY" herein.

The Initial Liquidity Facility will have an initial stated termination date of December 31, 2014 (such date, as the same may be extended as provided in the Initial Liquidity Facility, is referred to herein as the Initial Liquidity Facility's "Stated Termination Date"). The Initial Liquidity Facility will contain provisions for renewal, in the sole discretion of the Bank.

The Twenty-Fifth Supplemental Resolution contains provisions for obtaining a Substitute Liquidity Facility (as defined in APPENDIX E hereto) in substitution for the Liquidity Facility then in effect. See "THE 2012 SERIES B BONDS – Substitution of Liquidity Facilities" herein.

J.P. Morgan Securities LLC ("JPMS") will act as the initial remarketing agent for the 2012 Series B Bonds and will enter into a remarketing agreement with the City, dated as of August 1, 2012 (the "Remarketing Agreement"). U.S. Bank Trust National Association, New York, New York, will act as the initial tender agent for the 2012 Series B Bonds (in such capacity, the "Tender Agent") and will enter into a tender agency agreement with the City, dated as of August 1, 2012 (the "Tender Agency Agreement").

In addition to its Outstanding Bonds, as of October 1, 2011 and as of the date of this Official Statement, the City also has outstanding $62,000,000 in aggregate principal amount of its Utilities System Commercial Paper Notes, Series C (the "Series C CP Notes"). The Series C CP Notes are authorized to be issued in an aggregate principal amount outstanding at any time not to exceed $85,000,000. The City also has authorized the issuance of its Utilities System Commercial Paper Notes, Series D (the "Series D Taxable CP Notes" and, together with the Series C CP Notes, the "CP Notes"), which are authorized to be issued in an aggregate principal amount outstanding at any time not to exceed $25,000,000. As of October 1, 2011 and as of the date of this Official Statement, no Series D Taxable CP Notes are outstanding. The CP Notes constitute Subordinated Indebtedness under (and as defined in) the Resolution, and are issued pursuant to the Subordinated Utilities System Revenue Bond Resolution adopted by the City on January 26, 1989, as heretofore amended, supplemented and restated. Subordinated Indebtedness is subordinate in all respects to Bonds issued under the Resolution.

The Utilities System

For the fiscal year ended September 30, 2011, the electric system, which served an average of 92,272 residential, industrial and commercial customers (representing approximately 77% of the population of the County), accounted for approximately 70.4% of gross revenues and approximately 60.2% of net revenues of the System. The System owns and operates three generating stations, having a combined net summer capability of approximately 598.3 megawatts ("MW"), and owns an 11.9 MW share of the Crystal River 3 nuclear powered electric generating unit ("CR-3") which is operated by Progress Energy Florida, Inc. ("PEF"). The System also owns various transmission and distribution facilities. For the five fiscal years ended September 30, 2011, the System's fuel mix was as follows: coal 71.7%; natural gas 22.5%; nuclear 5.2%; and oil 0.6%, as a percentage of net generation. For the fiscal year ended September 30, 2011, the System's fuel mix was as follows: coal 77.6%; natural gas 22.0%; and oil 0.4%, as a percentage of net generation. As described under "THE ELECTRIC SYSTEM – Energy Supply System – *Generating Stations – Crystal River 3*" herein, in September 2009, CR-3 was taken out of service for repairs and PEF began providing replacement power to the System. See "THE ELECTRIC SYSTEM – Energy Supply System – *Generating Stations – Crystal River 3*" herein.

The natural gas distribution system, which served an average of 33,207 customers during the fiscal year ended September 30, 2011, accounted for approximately 8.0% of gross revenues and approximately 7.3% of net revenues of the System and is comprised of 741 miles of plastic, steel and cast iron gas mains. The gas distribution system is served from six delivery points interconnected with facilities of the Florida Gas Transmission Company ("FGT").

The water system, which served an average of 68,952 customers during the fiscal year ended September 30, 2011, accounted for approximately 8.6% of gross revenues and approximately 13.0% of net revenues of the System. The water system includes a water treatment plant having a nominal capacity of 54 million gallons per day ("Mgd"), water supply wells and distribution facilities.

The wastewater system, which served an average of 61,370 customers during the fiscal year ended September 30, 2011, accounted for approximately 9.7% of gross revenues and approximately 14.4% of net revenues of the System. The wastewater system consists of two major wastewater treatment plants having a combined capacity of 22.4 Mgd annual average daily flow ("AADF"), force mains and gravity wastewater collection sewers.

The telecommunications system ("GRUCom") interconnects four interexchange carriers, two local exchange carriers and six wireless (cellular telephone) carriers and consists of 389 miles of fiber optic cable, thirteen antenna attachment sites, and associated network equipment. As of September 30, 2011, GRUCom provided broadband data and Internet services to 6,641 residential and commercial customers, as well as public safety radio to all the major public safety agencies in the County. During the fiscal year ended September 30, 2011, GRUCom accounted for approximately 3.6% of gross revenues and approximately 5.1% of net revenues of the System.

Continuing Disclosure

Pursuant to a Continuing Disclosure Certificate to be executed by the City simultaneously with the delivery of the 2012 Series B Bonds (the "Continuing Disclosure Certificate"), the City will covenant for the benefit of the Holders and the "Beneficial Owners" (as defined in the Continuing Disclosure Certificate) of the 2012 Series B Bonds to provide certain financial information and operating data relating to the System by not later than six months after the end of each of the City's fiscal years (presently, by each March 31), commencing with the report for the fiscal year ending September 30, 2012 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events with respect to the 2012 Series B Bonds (each, an "Event Notice"). The Annual Report and each Event Notice will be filed by or on behalf of the City with the Municipal Securities Rulemaking Board (the "MSRB"). Until otherwise designated by the MSRB or the United States Securities and Exchange Commission (the "SEC"), filings with the MSRB are to be made

through the MSRB's EMMA website, currently located at http://emma.msrb.org. The specific nature of the information to be contained in the Annual Report and the Event Notices is set forth in the form of the Continuing Disclosure Certificate attached hereto as APPENDIX H. These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5).

As will be provided in the Continuing Disclosure Certificate, if the City fails to comply with any provision of the Continuing Disclosure Certificate, the remedies of any Holder or "Beneficial Owner" of the 2012 Series B Bonds will be limited to taking such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City to comply with its obligations under the Continuing Disclosure Certificate. "Beneficial Owner" will be defined in the Continuing Disclosure Certificate to mean any person holding a beneficial ownership interest in 2012 Series B Bonds through nominees or depositories (including any person holding such interest through the book-entry only system of The Depository Trust Company ("DTC")). IF ANY PERSON SEEKS TO CAUSE THE CITY TO COMPLY WITH ITS OBLIGATIONS UNDER THE CONTINUING DISCLOSURE CERTIFICATE, IT WILL BE THE RESPONSIBILITY OF SUCH PERSON TO DEMONSTRATE THAT IT IS A "BENEFICIAL OWNER" WITHIN THE MEANING OF THE CONTINUING DISCLOSURE CERTIFICATE.

As described in APPENDIX A hereto, upon initial issuance, the 2012 Series B Bonds will be issued in book-entry only form through the facilities of DTC, and the ownership of one fully registered 2012 Series B Bond, in the aggregate principal amount thereof, and will be registered in the name of Cede & Co., as nominee for DTC. For a description of DTC's current procedures with respect to the enforcement of bondholders' rights, see "BOOK-ENTRY ONLY SYSTEM" in APPENDIX A hereto.

Other

Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Resolution, except as otherwise indicated herein. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" in APPENDIX D hereto. In addition, certain definitions applicable to the 2012 Series B Bonds are set forth in "CERTAIN DEFINITIONS APPLICABLE TO THE 2012 SERIES B BONDS" in APPENDIX E hereto.

There follows in this Official Statement brief descriptions of the security for the Bonds, the 2012 Series B Bonds, the Initial Liquidity Facility, the Bank, the System, the City, the County, the Resolution and certain financial statements. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City or its Financial Advisor.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

- the impact of recent and future federal and state regulatory changes or judicial opinions, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry, implementation of the 2005 Energy Policy Act (hereinafter defined), environmental laws and regulations affecting water quality, coal combustion byproducts, and emissions of sulfur dioxide, nitrogen oxides, greenhouse gases ("GHG"), particulate matter and hazardous air pollutants including mercury, financial reform legislation, and also changes in tax and other laws and regulations to which the System is subject, as well as changes in application of existing laws and regulations;

- current and future litigation, regulatory investigations, proceedings, or inquiries;

- the effects, extent, and timing of the entry of additional competition in the markets in which the System operates;

- variations in demand for electricity, including those relating to weather, the general economy and recovery from the recent recession, population and business growth (and declines), and the effects of energy conservation measures;

- available sources and costs of fuels;

- effects of inflation;

- ability to control costs and avoid cost overruns during the development and construction of facilities, including those relating to unanticipated conditions encountered during construction, risks of non-performance or delay by contractors and subcontractors and potential contract disputes;

- investment performance of the System's invested funds;

- advances in technology;

- the ability of counterparties of the City to make payments as and when due and to perform as required;

- the direct or indirect effect on the System's business resulting from terrorist incidents and the threat of terrorist incidents, including cyber intrusion;

- interest rate fluctuations and financial market conditions and the results of financing efforts, including the System's credit ratings;

- the impacts of any potential U.S. credit rating downgrade or other sovereign financial issues, including impacts on interest rates, access to capital markets, impacts on currency exchange rates, counterparty performance, and the economy in general;

- the ability of the System to obtain additional generating capacity at competitive prices;

- the ability of the System to dispose of surplus generating capacity at competitive prices;

- the ability of the System to mitigate the cost impacts associated with integrating additional generating capacity into the System's energy supply portfolio;

- catastrophic events such as fires, earthquakes, explosions, floods, hurricanes, droughts, pandemic health events such as influenzas, or other similar occurrences;

- the direct or indirect effects on the System's business resulting from incidents affecting the U.S. electric grid or operation of generating resources;

- the effect of accounting pronouncements issued periodically by standard-setting bodies; and

- other factors discussed elsewhere herein.

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

PLAN OF FINANCE

The 2012 Series B Bonds

The 2012 Series B Bonds will be issued to (a) provide a portion of the funds required to refund (i) the City's Utilities System Revenue Bonds, 2005 Series B (Federally Taxable) listed in the table below (the "Refunded Taxable 2005 Bonds"), (b) the City's Variable Rate Utilities System Revenue Bonds, 2005 Series C listed in the table below (the "Refunded Tax-Exempt 2005 Bonds"), (c) the City's Variable Rate Utilities System Revenue Bonds, 2006 Series A listed in the table below (the "Refunded Tax-Exempt 2006 Bonds") and (d) the City's Utilities System Revenue Bonds, 2008 Series A (Federally Taxable) listed in the table below (the "Refunded Taxable 2008 Bonds" and, together with the Refunded Taxable 2005 Bonds, the "Refunded Taxable Bonds"; the Refunded Taxable Bonds, the Refunded Tax-Exempt 2005 Bonds and the Refunded Tax-Exempt 2006 Bonds are collectively referred to herein as the "Refunded Bonds") and (b) to pay costs of issuance of the 2012 Series B Bonds.

Series	Maturity Date (October 1)	Interest Rate	Amount to be Refunded	Redemption Date	Redemption Price (expressed as a percentage of principal amount)
2005 Series B	October 1, 2015	5.140%	$ 5,755,000	_____ __, 2012	*
2005 Series B	October 1, 2021	5.310	28,665,000	_____ __, 2012	*
2005 Series C	October 1, 2026	Variable	16,610,000	_____ __, 2012	100
2006 Series A	October 1, 2026	Variable	23,330,000	_____ __, 2012	100
2008 Series A	October 1, 2014	4.490	7,190,000	_____ __, 2012	*
2008 Series A	October 1, 2015	4.820	1,875,000	_____ __, 2012	*
2008 Series A	October 1, 2016	4.920	1,965,000	_____ __, 2012	*
2008 Series A	October 1, 2017	5.020	2,060,000	_____ __, 2012	*

* In accordance with the terms of the Refunded Taxable Bonds, the Refunded Taxable Bonds of each series and maturity are subject to redemption prior to maturity at the election of the City, in whole or in part, on any date, at a "make-whole" redemption price determined in the manner set forth therein, which redemption prices are to be determined on the tenth day (or, if such day is not a business day, the next preceding business day) preceding such redemption date. On _____ __, 2012, the Trustee gave notice of redemption to the holders of the Refunded Taxable Bonds on behalf of the City, calling such Bonds for redemption on _____ __, 2012. As permitted by the terms of the Resolution and the Refunded Taxable Bonds, such call for redemption is revocable and is conditioned upon the issuance by the City of the 2012 Series B Bonds on or prior to _____ __, 2012. As a result of such call for redemption, the redemption prices of the Refunded Taxable Bonds of each series and maturity will be determined on _____ __, 2012.

As more fully described in footnote (2) to the table under the heading "OUTSTANDING DEBT" herein, the City has entered into a floating-to-floating rate interest rate swap transaction (as more fully described in said footnote (2), the "2005 Series B Swap Transaction") with respect to a pro rata portion of each

of the maturities of the 2005 Series B Bonds, in order to convert synthetically the interest rates on such pro rata portion of the 2005 Series B Bonds from taxable interest rates to tax-exempt interest rates. Since a portion of the outstanding taxable 2005 Series B Bonds are being refunded through the issuance of the tax-exempt 2012 Series B Bonds, the 2005 Series B Swap Transaction will not serve as a hedge against the 2012 Series B Bonds. However, since the City will have other taxable Bonds that will remain outstanding following the issuance of the 2012 Series B Bonds, the City intends to leave that portion of the 2005 Series B Swap Transaction allocable to the Refunded Taxable 2005 Bonds outstanding following the issuance of the 2012 Series B Bonds, as a partial hedge against the interest rates to be borne by such other taxable Bonds, although such portion of the 2005 Series B Swap Transaction will not specifically match, in terms of its notional amount and amortization, any particular Series and maturity of such other taxable Bonds.

In addition, as more fully described in footnote (4) to the table under the heading "OUTSTANDING DEBT" herein, the City has entered into a floating-to-fixed rate interest rate swap transaction (as more fully described in said footnote (4), the "2005 Series C Swap Transaction") with respect to the 2005 Series C Bonds, in order to fix synthetically, subject to the "basis risk" described in said footnote (4), the interest rate on the 2005 Series C Bonds. Since a portion of the outstanding variable rate 2005 Series C Bonds are being refunded through the issuance of the variable rate 2012 Series B Bonds, the City intends to leave that portion of the 2005 Series C Swap Transaction allocable to the Refunded Tax-Exempt 2005 Bonds outstanding following the issuance of the 2012 Series B Bonds, as a partial hedge against the interest rates to be borne by the 2012 Series B Bonds, although such portion of the 2005 Series C Swap Transaction will not specifically match, in terms of its notional amount and amortization, the 2012 Series B Bonds.

Also, as more fully described in footnote (5) to the table under the heading "OUTSTANDING DEBT" herein, the City has entered into a floating-to-fixed rate interest rate swap transaction (as more fully described in said footnote (5), the "2006 Series A Swap Transaction") with respect to the 2006 Series A Bonds, in order to fix synthetically, subject to the "basis risk" described in said footnote (5), the interest rate on the 2006 Series A Bonds. Since a portion of the outstanding variable rate 2006 Series A Bonds are being refunded through the issuance of the variable rate 2012 Series B Bonds, the City intends to leave that portion of the 2006 Series A Swap Transaction allocable to the Refunded Tax-Exempt 2006 Bonds outstanding following the issuance of the 2012 Series B Bonds, as a partial hedge against the interest rates to be borne by the 2012 Series B Bonds, although such portion of the 2006 Series A Swap Transaction will not specifically match, in terms of its notional amount and amortization, the 2012 Series B Bonds.

As more fully described in footnotes (2), (4) and (5) to the table under the heading "OUTSTANDING DEBT" herein, each of the interest rate swap transactions referred to in the preceding three paragraphs has been designated by the City as a "Qualified Hedging Transaction" within the meaning of the Resolution (see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" and "– Provisions Concerning Qualified Hedging Contracts" in APPENDIX D hereto). As such, amounts payable by the City under such interest rate swap transactions (other than any termination payments owed to the counterparties to such interest rate swap transactions) are secured as a "Parity Hedging Contract Obligation" within the meaning of the Resolution (see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" in APPENDIX D hereto) and are payable on a parity with debt service on the Bonds, notwithstanding the fact that such interest rate swap transactions, either individually or in the aggregate, will not specifically match, in terms of notional amount and amortization, the 2012 Series B Bonds.

The 2012 Series A Bonds

Concurrently with the issuance of the 2012 Series B Bonds the City expects to issue the 2012 Series A Bonds in the aggregate principal amount of $_____. The 2012 Series A Bonds will be issued to (a) provide a portion of the funds required to refund the 2003 Series A Bonds listed in the table below (the "Refunded 2003 Bonds") and the 2005 Series A Bonds listed in the table below (the "Refunded 2005 Bonds" and, together with the Refunded 2003 Bonds, the "2012 Series A Refunded Bonds") and (b) pay costs of issuance of the 2012 Series A Bonds.

Series	Maturity Date (October 1)	Interest Rate	Amount to be Refunded	Redemption Date	Redemption Price (expressed as a percentage of principal amount)
2003 Series A	October 1, 2023	4.625%	$ 1,605,000	October 1, 2013	100%
2005 Series A	October 1, 2021	4.750	6,210,000	October 1, 2015	100
2005 Series A	October 1, 2022	4.750	8,940,000	October 1, 2015	100
2005 Series A	October 1, 2023	5.000	9,365,000	October 1, 2015	100
2005 Series A	October 1, 2024	5.000	9,835,000	October 1, 2015	100
2005 Series A	October 1, 2025	4.750	10,325,000	October 1, 2015	100

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

SOURCES AND USES OF FUNDS

The sources and uses of funds with respect to the 2012 Series B Bonds are estimated to be as follows:

Sources of Funds

Principal Amount of 2012 Series B Bonds	$_____
Amounts Available from Debt Service Account in Debt Service Fund Established under the Resolution	
Other Available Funds of the System	_____
Total Sources	$_____

Uses of Funds

Redemption of the Refunded Bonds	$_____
Payment of costs of issuance, including underwriter's discount	_____
Total Uses	$_____

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OUTSTANDING DEBT

The following table sets forth the outstanding debt of the City issued for the System as of October 1, 2011.

Outstanding Debt of the City Issued for the System

Description	Interest Rates	Due Dates (October 1)	As of October 1, 2011 (Unaudited) Principal Outstanding	Principal to be Outstanding After Issuance of 2012 Series A Bonds
Utilities System Revenue Bonds				
Series 1983	6.00%	2014	$ 4,675,000	$ 4,675,000
1992 Series B	6.50%	2012-2013	9,300,000	9,300,000
2003 Series A	4.625%	2023	1,605,000	[_____][3]
2003 Series B (federally taxable)	4.40%	2012-2013	1,800,000	1,800,000
2003 Series C	5.00%	2012-2013	30,780,000	30,780,000
2005 Series A	4.75 – 5.00%	2021-2036	91,820,000	[_____][3]
2005 Series B (federally taxable)	5.14 – 5.31%[1][2]	2012-2021	57,425,000	[_____]
2005 Series C	Variable[1][4]	2012-2026	49,035,000	[_____]
2006 Series A	Variable[1][5]	2012-2026	47,430,000	[_____]
2007 Series A	Variable[1][6]	2012-2036	138,465,000	138,465,000
2008 Series A (federally taxable)	3.94 – 5.27%	2012-2020	74,745,000	[_____]
2008 Series B	Variable[1][7]	2022-2038	90,000,000	90,000,000
2009 Series A (federally taxable)	2.367 – 3.589%	2012-2015	16,405,000	16,405,000
2009 Series B (federally taxable)	3.589 – 5.655%	2015-2039	156,900,000	156,900,000
2010 Series A (federally taxable)	5.874%	2027-2030	12,930,000	12,930,000
2010 Series B (federally taxable)	6.024%	2034-2040	132,445,000	132,445,000
2010 Series C	5.00 – 5.25%	2015-2034	16,365,000	16,365,000
2012 Series A			–	[_____]
2012 Series B	Variable[8]		–	[_____]
Total Utilities System Revenue Bonds			$932,125,000	$ [ ]
Utilities System Commercial Paper Notes				
Series C	Variable[1][9]	[10]	$ 62,000,000	$ 62,000,000
Total Subordinated Bonds			$ 62,000,000	$ 62,000,000

(1) See Note 4 to the audited financial statements of the System for the fiscal years ended September 30, 2011 and 2010 included as APPENDIX B to this Official Statement for a discussion of the various risks borne by the City relating to interest rate swap transactions.

(2) The City has entered into a floating-to-floating rate interest rate swap transaction (the "2005 Series B Swap Transaction") with respect to a pro rata portion of each of the maturities of the 2005 Series B Bonds. The initial notional amount of the 2005 Series B Swap Transaction was $45,000,000, which corresponded to approximately 73.1% of the principal amount of each maturity of the 2005 Series B Bonds. The counterparty to the 2005 Series B Swap transaction currently has a counterparty risk rating of "Aa1" from Moody's Investors Service ("Moody's") and a counterparty credit rating of "AAA" from Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"). The term of the 2005 Series B Swap Transaction is identical to the term of the 2005 Series B Bonds, and the notional amount of the 2005 Series B Swap Transaction will amortize at the same times and in the same amounts as the pro rata portion of the 2005 Series B Bonds to which it relates. The 2005 Series B Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the 2005 Series B Swap Transaction, the City will pay to the counterparty a rate equal to the SIFMA Municipal Swap Index (formerly known as the BMA Municipal Swap Index) and will receive from the counterparty a rate equal to 77.14% of the one-month LIBOR rate. The effect of the 2005 Series B Swap Transaction is to convert synthetically the interest rate on such pro rata portion of the 2005 Series B Bonds from a taxable rate to a tax-exempt rate. The City has designated the 2005 Series B Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution (see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" and "– Provisions Concerning Qualified Hedging Contracts" in APPENDIX D hereto).

(3) Simultaneously with the issuance of the 2012 Series B Bonds, the City expects to issue the 2012 Series A Bonds in order to refund (a) $[1,605,000] in aggregate principal amount of the 2003 Series A Bonds and (b) $[44,675,000] in aggregate principal amount of the 2005 Series A Bonds. See "PLAN OF FINANCE – The 2012 Series B Bonds" herein.

(footnotes continue on following page)

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(4) The City has entered into a floating-to-fixed rate interest rate swap transaction (the "2005 Series C Swap Transaction") with respect to the 2005 Series C Bonds. The counterparty to the 2005 Series C Swap Transaction currently has a counterparty credit rating of "Aa1" from Moody's and a counterparty credit rating of "A+" from S&P. The term of the 2005 Series C Swap Transaction is identical to the term of the 2005 Series C Bonds, and the notional amount of the 2005 Series C Swap Transaction will amortize at the same times and in the same amounts as the 2005 Series C Bonds. The 2005 Series C Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the 2005 Series C Swap Transaction, the City will pay to the counterparty a fixed rate of 3.20% per annum and will receive from the counterparty a rate equal to 60.36% of the ten-year LIBOR swap rate. The effect of the 2005 Series C Swap Transaction is to fix synthetically the interest rate on the 2005 Series C Bonds at a rate of approximately 3.20% per annum, although the City bears basis risk, which may be positive or negative, between the rate received on the 2005 Series C Swap Transaction and the rate paid on the 2005 Series C Bonds, which could result in a realized rate over time that may be lower or higher than the 3.20% rate payable by the City under the 2005 Series C Swap Transaction. The City has designated the 2005 Series C Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution (see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" and "– Provisions Concerning Qualified Hedging Contracts" in APPENDIX D hereto).

(5) The City has entered into a floating-to-fixed rate interest rate swap transaction (the "2006 Series A Swap Transaction") with respect to the 2006 Series A Bonds. The counterparty to the 2006 Series A Swap Transaction currently has a counterparty risk rating of "Aa1" from Moody's and a counterparty credit rating of "AAA" from S&P. The term of the 2006 Series A Swap Transaction is identical to the term of the 2006 Series A Bonds, and the notional amount of the 2006 Series A Swap Transaction will amortize at the same times and in the same amounts as the 2006 Series A Bonds. The 2006 Series A Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the 2006 Series A Swap Transaction, the City will pay to the counterparty a fixed rate of 3.224% per annum and will receive from the counterparty a rate equal to 68% of the ten-year LIBOR swap rate minus 36.5 basis points. The effect of the 2006 Series A Swap Transaction is to fix synthetically the interest rate on the 2006 Series A Bonds at a rate of approximately 3.224% per annum, although the City bears basis risk, which may be positive or negative, between the rate received on the 2006 Series A Swap Transaction and the rate paid on the 2006 Series A Bonds, which could result in a realized rate over time that may be lower or higher than the 3.224% rate payable by the City under the 2006 Series A Swap Transaction. The City has designated the 2006 Series A Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution (see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" and "– Provisions Concerning Qualified Hedging Contracts" in APPENDIX D hereto).

(6) The City has entered into a floating-to-fixed rate interest rate swap transaction (the "2007 Series A Swap Transaction") with respect to the Variable Rate Utilities System Revenue Bonds, 2007 Series A (the "2007 Series A Bonds"). The counterparty to the 2007 Series A Swap Transaction currently has a counterparty risk rating of "Aa1" from Moody's and a financial program rating of "AAA" from S&P. The term of the 2007 Series A Swap Transaction is identical to the term of the 2007 Series A Bonds, and the notional amount of the 2007 Series A Swap Transaction will amortize at the same times and in the same amounts as the 2007 Series A Bonds. The 2007 Series A Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the 2007 Series A Swap Transaction, the City will pay to the counterparty a fixed rate of 3.944% per annum and will receive from the counterparty a rate equal to the SIFMA Municipal Swap Index (formerly known as the BMA Municipal Swap Index). The effect of the 2007 Series A Swap Transaction is to fix synthetically the interest rate on the 2007 Series A Bonds at a rate of approximately 3.944% per annum. The City has designated the 2007 Series A Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution (see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" and "– Provisions Concerning Qualified Hedging Contracts" in APPENDIX D hereto).

(7) The City has entered into two floating-to-fixed rate interest rate swap transactions (the "2008 Series B Swap Transactions") with respect to the Variable Rate Utilities System Revenue Bonds, 2008 Series B (the "2008 Series B Bonds"). The counterparties to the 2008 Series B Swap Transactions currently have a counterparty risk rating of "Aa1" from Moody's and a financial program rating of "A+" from S&P, and a counterparty risk rating of "Aa1" from Moody's and a financial program rating of "A+" from S&P, respectively. The terms of the 2008 Series B Swap Transactions are identical to the term of the 2008 Series B Bonds, and the notional amount of the 2008 Series B Swap Transactions will amortize at the same times and in the same amounts as the 2008 Series B Bonds. The 2008 Series B Swap Transactions are subject to termination by the City or the counterparties at certain times and under certain conditions. During the terms of the 2008 Series B Swap Transactions, the City will pay to the counterparties a fixed rate of 4.229% per annum and will receive from the counterparties a rate equal to the SIFMA Municipal Swap Index (formerly known as the BMA Municipal Swap Index). The effect of the 2008 Series B Swap Transactions is to fix synthetically the interest rate on the 2008 Series B Bonds at a rate of approximately 4.229% per annum. The City has designated each of the 2008 Series B Swap Transactions as a "Qualified Hedging Transaction" within the meaning of the Resolution (see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" and "– Provisions Concerning Qualified Hedging Contracts" in APPENDIX D hereto).

(8) The interest rates to be borne by the 2012 Series B Bonds will be hedged, in part, by the 2005 Series C Swap Transaction and the 2006 Series A Swap Transaction. See "PLAN OF FINANCE – The 2012 Series B Bonds" herein and notes (4) and (5) above.

(9) The City has entered into a floating-to-fixed rate interest rate swap transaction (the "Series C CP Notes Swap Transaction") with respect to a portion of the Series C CP Notes. The counterparty to the Series C CP Notes Swap Transaction currently has a counterparty risk rating of "AAA" from Fitch Ratings ("Fitch") and does not have a counterparty risk rating from Moody's or a financial program rating from S&P. The term of the Series C CP Notes Swap Transaction is identical to the expected final maturity date of the Series C CP Notes, and the notional amount of the Series C CP Notes Swap Transaction will amortize at the same times and in the same amounts as the Series C CP Notes related to the swap are expected to be amortized. The Series C CP Notes Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the Series C CP Notes Swap Transaction, the City will pay to the counterparty a fixed rate of 4.10% per annum and will receive from the counterparty a rate equal to the SIFMA Municipal Swap Index (formerly known as the BMA Municipal Swap Index). The effect of the Series C CP Notes Swap Transaction is to fix synthetically the interest rate on a portion of the Series C CP Notes at a rate of approximately 4.10% per annum. The City has not designated the Series C CP Notes Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution (see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" in APPENDIX D hereto), so all amounts owed by the City under the Series C CP Notes Swap Transaction are payable from amounts remaining on deposit in the Revenue Fund established pursuant to the Resolution following the payment of, among other things, Operation and Maintenance Expenses, debt service on the Bonds, debt service on Subordinated Indebtedness and required deposits to the Utilities Plant Improvement Fund established pursuant to the Resolution.

(10) The Series C CP Notes will mature no more than 270 days from their date of issuance, but in no event later than October 5, 2022.

Table I in APPENDIX F hereto shows (a) existing debt service requirements, including sinking fund installments, on the Outstanding Bonds, (b) the debt service requirements, including sinking fund installments, on the 2012 Series B Bonds and (c) total debt service requirements on all Bonds to be Outstanding following the issuance of the 2012 Series B Bonds (other than the 2012 Series A Bonds). Table II in APPENDIX F hereto shows (w) total debt service requirements on all Bonds to be Outstanding following the issuance of the 2012 Series B Bonds (other than the 2012 Series A Bonds), (x) the debt service requirements on the 2012 Series A Refunded Bonds, (y) the debt service requirements[, including sinking fund installments,] on the 2012 Series A Bonds and (z) total debt service requirements on all Bonds to be Outstanding following the issuance of the 2012 Series A Bonds and the 2012 Series B Bonds.

ADDITIONAL FINANCING REQUIREMENTS

Management of the System ("Management") currently is developing and reviewing its proposed annual budget for the System for the fiscal year ending September 30, 2013. As part of this process, capital improvement projects have been projected through 2017. Consideration of the System's proposed budget (and any recommended rate changes) by the City Commission of the City (the "City Commission") is not expected to occur until September 2012. The numbers shown below reflect the six-year capital improvement program expected to be submitted by Management for approval by the City Commission in connection with its approval of the System's annual budget for the fiscal year ending September 30, 2013, except that the numbers shown for the fiscal year ending September 30, 2012 reflect the capital improvement program approved by the City Commission for such fiscal year in September 2011 in connection with its approval of the System's annual budget for such fiscal year, updated to reflect (a) actual capital improvement program expenditures to date and (b) Management's estimate of capital improvement program expenditures to be incurred through the remainder of the current fiscal year. No assurances can be given as to the amount of expenditures that will be included in the new capital improvement program ultimately approved by the City Commission for the fiscal years ending September 30, 2013 through 2017 in connection with its approval of the System's annual budget for the fiscal year ending September 30, 2013.

Management's projected six-year capital improvement program, as shown in the table below, requires a total of approximately $495,656,000 in capital expenditures and $4,101,000 for issuance costs between 2012 and 2017, inclusive, for total capital improvement program costs of $499,757,000. Such amount is projected to be funded in part from remaining construction funds from previous financings, construction fund interest earnings, Revenues, and approximately $205,000,000 of future additional Bonds and/or Subordinated Indebtedness (including additional commercial paper notes) that Management projects will be issued in 2014 and 2016. The ongoing and planned projects included in the capital improvement program are discussed in further detail herein for the electric, natural gas, water, wastewater and telecommunications systems, respectively.

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Summary of Capital Improvement Program

	Fiscal Years ending September 30,						
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2012-2017**
Cash Balance October 1,	$146,678,000	$87,134,000	$21,489,000	$65,332,000	$2,012,000	$47,168,000	$146,678,000[(1)]
Source of Funds:							
Bond Financing	–	–	106,518,000	–	98,482,000	–	205,000,000
Revenues	46,252,000	29,380,000	16,184,000	18,763,000	18,832,000	18,584,000	147,995,000
Interest Earnings	862,000	212,000	278,000	49,000	–	39,000	1,440,000
Total Sources	$47,114,000	$29,592,000	$122,980,000	$18,812,000	$117,314,000	$18,623,000	$501,113,000
Use of Funds:							
Construction Projects:							
Electric	$55,562,000	$40,491,000	$42,645,000	$49,416,000	$43,448,000	$37,131,000	$268,693,000
Gas	10,519,000	6,251,000	4,328,000	4,170,000	4,318,000	4,748,000	34,334,000
Water	13,888,000	11,719,000	9,703,000	10,958,000	8,599,000	8,608,000	63,475,000
Wastewater	13,528,000	27,169,000	14,019,000	11,915,000	7,938,000	7,844,000	82,413,000
GRUCom	13,161,000	9,607,000	6,312,000	5,673,000	5,884,000	6,104,000	46,741,000
Total Construction	$106,658,000	$95,237,000	$77,007,000	$82,132,000	$70,187,000	$64,435,000	$495,656,000
Issuance Costs	–	–	2,130,000	–	1,971,000	–	4,101,000
Total Uses	$106,658,000	$95,237,000	$79,137,000	$82,132,000	$72,158,000	$64,435,000	$499,757,000
Cash Balance September 30,	$87,134,000	$21,489,000	$65,332,000	$2,012,000	$47,168,000	$1,356,000	$1,356,000[(2)]

(1) Opening cash balance on October 1, 2011.

(2) Projected closing cash balance on September 30, 2017.

SECURITY FOR THE BONDS

Pledge Under the Resolution

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

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

Rate Covenant

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

Additional Bonds; Conditions to Issuance

The City may issue additional Bonds for the purpose of paying all or a portion of the Cost of Acquisition and Construction of the System or for the purpose of refunding outstanding Bonds. All Series of such Bonds will be payable from the same sources and secured on a parity with all other Series of Bonds. Set forth below are certain conditions applicable to the issuance of additional Bonds.

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

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

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

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

Flow of Funds Under the Resolution

The City has covenanted to deposit all Revenues of the System to the credit of the Revenue Fund. Each month, the City is to pay from the Revenue Fund amounts necessary to meet Operation and Maintenance Expenses for such month. After such payment, the City is to pay from the Revenue Fund, in the following order of priority, amounts, if any, budgeted or otherwise necessary for the Rate Stabilization Fund, amounts required for the Debt Service Account in the Debt Service Fund and amounts, if any, required for credit to any separate subaccount established in the Debt Service Reserve Account in the Debt Service Fund for a particular Series of Bonds, amounts, if any, required for the Subordinated Indebtedness Fund, and amounts to be deposited in the Utilities Plant Improvement Fund. The balance of any moneys remaining in the Revenue Fund after the required payments have been made can be used by the City for any other lawful purpose, provided that all current payments have been made and the City has otherwise fully complied with the Resolution. All amounts held in any Funds under the Resolution are subject to being invested in Investment Securities; such investments will be valued at the amortized cost thereof.

For a more extensive discussion of the terms and provisions of the Resolution, the levels at which the funds and accounts established thereby are to be maintained and the purposes to which moneys in such funds and accounts may be applied, see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION" in APPENDIX D hereto.

THE 2012 SERIES B BONDS

General

The 2012 Series B Bonds will be issued in the aggregate principal amount of $_____, will be dated the date of their original issuance and will mature on October 1, 2042. Upon initial issuance, the 2012 Series B Bonds will be subject to the [Daily] Mode and will bear interest at [Daily] Rates, determined as described under the caption "Interest Rates and Interest Modes; Determination of Interest Rates" below. While the 2012 Series B Bonds are in the [Daily] Mode, interest will be payable on the first Business Day (as defined in APPENDIX E hereto) of each calendar month.

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

The 2012 Series B Bonds will be issuable only in fully registered form in the Authorized Denominations. "Authorized Denominations" means (i) for 2012 Series B Bonds bearing interest at a Daily Rate, a Weekly Rate or a Flexible Rate, $100,000 or any integral multiple of $5,000 in excess thereof and (ii) for 2012 Series B Bonds bearing interest at a Term Rate or a Fixed Rate, $5,000 or any integral multiple thereof. Upon initial issuance, the 2012 Series B Bonds will be issued in book-entry only form and will be registered in the name of Cede & Co., as nominee for DTC. See "BOOK-ENTRY ONLY SYSTEM" in APPENDIX A hereto.

As more fully described under the captions "Optional Tender for Purchase" and "Mandatory Tender for Purchase" below, the 2012 Series B Bonds (or, for so long as the 2012 Series B Bonds are subject to the book-entry only system of registration and transfer described in "BOOK-ENTRY ONLY SYSTEM" in APPENDIX A hereto, beneficial ownership interests therein) are subject to optional tender for purchase and, under certain circumstances, mandatory tender for purchase. The Purchase Price (as defined in APPENDIX E hereto) for 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) tendered or deemed tendered for purchase is payable solely from the sources described under the caption "Remarketing and Purchase Price" below, and is not payable from any funds of the City.

Liquidity support in connection with tenders for purchase of the 2012 Series B Bonds will be provided initially by the Bank pursuant to the Initial Liquidity Facility. See "INTRODUCTORY STATEMENT – General", "THE INITIAL LIQUIDITY FACILITY" and "THE BANK" herein. The Twenty-Fifth Supplemental Resolution contains provisions for obtaining a Substitute Liquidity Facility in substitution for the Liquidity Facility then in effect. See "Substitution of Liquidity Facilities" below.

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

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

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

For definitions of certain terms applicable to the 2012 Series B Bonds that are not otherwise defined herein, see "CERTAIN DEFINITIONS APPLICABLE TO THE 2012 SERIES B BONDS" in APPENDIX E hereto.

Interest on the 2012 Series B Bonds

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

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

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

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

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

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

Interest Rates and Interest Modes; Determination of Interest Rates

The 2012 Series B Bonds initially will be in the [Daily] Mode and will bear interest at [Daily] Rates until such time (if any) as the 2012 Series B Bonds are changed to the Auction Mode, the Weekly Mode, the Flexible Mode, the Term Mode or the Fixed Mode. The interest rate to be in effect with respect to a particular 2012 Series B Bond (or beneficial ownership interest therein) for a particular period of time as described below (an "Interest Period") will be determined by the Remarketing Agent as the minimum interest rate necessary in its judgment to be borne by such 2012 Series B Bond (or beneficial ownership interest therein) for the relevant Interest Period to enable the Remarketing Agent to remarket such 2012 Series B Bond (or beneficial ownership interest therein) on the Rate Adjustment Date (as defined in APPENDIX E hereto) therefor at a price (without regard to accrued interest) equal to 100% of the principal amount thereof (each such rate being referred to as a "Market Rate"), but not in excess of the Maximum Rate. Each date on which an interest rate is determined for any 2012 Series B Bond (or beneficial ownership interest therein) is referred to as a "Rate Determination Date."

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

Remarketing Agent, or in the absence of such designation, any other dealer bank or broker-dealer competent in such matters and chosen by the City.

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

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

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

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

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

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

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

Change in Interest Modes

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

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

When a change in Interest Mode is to be made, the Tender Agent is required to give notice of the proposed change to the Holders of the 2012 Series B Bonds (a) if the 2012 Series B Bonds are then in the Daily Mode or the Weekly Mode, not less than fifteen nor more than 60 days prior to the proposed Mode Adjustment Date and (b) if the 2012 Series B Bonds are in any other Interest Mode, not less than 30 nor more than 60 days prior to the proposed Mode Adjustment Date. Such notice will state, among other things, that the 2012 Series B Bonds will be subject to mandatory tender for purchase on the proposed Mode Adjustment Date.

Optional Tender for Purchase

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

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

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

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

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

Mandatory Tender for Purchase

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

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

Substitution of Liquidity Facility: on any Substitution Date (as defined in APPENDIX E hereto) while the 2012 Series B Bonds are in the Daily Mode or the Weekly Mode; *provided*, *however*, that if the City shall have delivered to the Notice Parties, by not later than the Business Day prior to

the date on which the Tender Agent is required to give notice of such mandatory tender pursuant to the Twenty-Fifth Supplemental Resolution, written evidence from each Rating Agency (as defined in APPENDIX E hereto) then rating the 2012 Series B Bonds to the effect that such Rating Agency has reviewed the proposed Substitute Liquidity Facility and that the substitution of such Substitute Liquidity Facility for the Liquidity Facility then in effect will not result in a withdrawal, suspension or reduction in such Rating Agency's ratings on the 2012 Series B Bonds, then the 2012 Series B Bonds shall not be subject to mandatory tender for purchase on the Substitution Date,

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

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

City Option in Term Mode: at the option of the City while the 2012 Series B Bonds are in the Term Mode, on any day on which such 2012 Series B Bonds may then be redeemed at the election of the City at a redemption price of 100% of the principal amount thereof, plus accrued interest, if any, thereon; *provided, however*, that the Bank provide its written consent to the 2012 Series B Bonds being so subject to mandatory tender on such date (see "Redemption Provisions – *Optional Redemption*" below),

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

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

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

above. While the 2012 Series B Bonds are subject to the book-entry only system of registration and transfer described in "BOOK-ENTRY ONLY SYSTEM" in APPENDIX A hereto, such notice will be given only to DTC.

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

Remarketing and Purchase Price

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

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

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

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

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

Untendered 2012 Series B Bonds

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

2012 Series B Bank Bonds

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

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

The Twenty-Fifth Supplemental Resolution also provides that each 2012 Series B Bank Bond will constitute an "Option Bond" within the meaning of the Resolution and, as such, may be tendered or deemed tendered to the City for payment upon the occurrence of certain "events of default" on the part of the City

under the Liquidity Facility. See the third paragraph under "THE INITIAL LIQUIDITY FACILITY – Remedies of the Bank" herein. Upon any such tender or deemed tender for purchase, the 2012 Series B Bank Bonds so tendered or deemed tendered will be due and payable immediately.

Disclosure Concerning Sales of Variable Rate Demand Obligations by Remarketing Agent

The information under this subcaption has been provided by the Remarketing Agent for inclusion in this Official Statement. No representation is made by the City as to the accuracy, completeness or adequacy of such information.

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

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

2012 Series B Bonds May be Offered at Different Prices on Any Date Including a Rate Determination Date. Pursuant to the Twenty-Fifth Supplemental Resolution and the Remarketing Agreement, on each Rate Determination Date, the Remarketing Agent is required to determine the 2012 Series B Bond Rate, which shall be the rate of interest that, in the Remarketing Agent's judgment, is the minimum interest rate necessary to be borne by the affected 2012 Series B Bonds (or beneficial ownership interests therein) for the relevant Interest Period to enable the Remarketing Agent to remarket such 2012 Series B Bonds (or beneficial ownership interests therein) on the Rate Determination Date therefor at a price (without regard to accrued interest) equal to 100% of the principal amount thereof; *provided, however*, that in no event shall any rate so determined exceed the Maximum Bond Interest Rate. The interest rate will reflect, among other factors, the level of market demand for the 2012 Series B Bonds (including whether the Remarketing Agent is willing to purchase 2012 Series B Bonds for its own account). There may or may not be 2012 Series B Bonds tendered and remarketed on a Rate Determination Date, the Remarketing Agent may or may not be able to remarket any 2012 Series B Bonds tendered for purchase on such date at par and the Remarketing Agent may sell 2012 Series B Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third-party buyers for all of the 2012 Series B Bonds at the remarketing price. In the event the Remarketing Agent owns any 2012 Series B Bonds for its own account, it may, in its sole discretion in a secondary market transaction

outside the tender process, offer 2012 Series B Bonds on any date, including the Rate Determination Date, at a discount to par to some investors.

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

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

Redemption Provisions

Optional Redemption

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

(a) if the 2012 Series B Bonds are in a Daily or Weekly Mode, on any Business Day;

(b) if the 2012 Series B Bonds are in a Flexible or Term Mode, on any Rate Adjustment Date for the 2012 Series B Bonds to be redeemed; and

(c) if the 2012 Series B Bonds are in the Fixed Mode, on the first day of the Fixed Mode for the 2012 Series B Bonds to be redeemed.

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

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

(b) during any Interest Period therefor, on any alternate dates and at any alternate prices stated in a certificate of an authorized officer of the City delivered to the Notice Parties prior to the Rate Determination Date for such Interest Period and accompanied by an opinion of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that such

substitution of such alternate dates and prices will not adversely affect the exclusion of interest on any 2012 Series B Bond from the gross income of the owner thereof for federal income tax purposes;

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

Sinking Fund Redemption

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

Year	**Amount**	**Year**	**Amount**
20__	$ _____	20__	$ _____
20__	_____	20__	_____
20__	_____	20__	_____
20__	_____	20__	_____
20__	_____	20__	_____
20__	_____	20__	_____
20__	_____	20__	_____
20__	_____	2042*	_____
20__	_____		

* final maturity

Taking into consideration the sinking fund redemptions set forth above, the average life of the 2012 Series B Bonds, calculated from the date of delivery of such Bonds, is approximately _____ years.

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

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

Selection of 2012 Series B Bonds to be Redeemed

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

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

Notice of Redemption

The Resolution requires the Trustee to give notice of any redemption of the 2012 Series B Bonds not less than fifteen days prior to the redemption date. Notice of redemption will be given by first-class mail to each holder of the 2012 Series B Bonds to be redeemed. The failure of the Trustee to give notice by mail, or any defect in such notice, to the holder of any 2012 Series B Bond will not affect the validity of the proceedings for the redemption of any other 2012 Series B Bond. Notice having been given in the manner provided in the Resolution, on the redemption date so designated, (a) unless such notice has been revoked or ceases to be in effect in accordance with the terms thereof and (b) if there shall be sufficient moneys available therefor, then the 2012 Series B Bonds or portions thereof so called for redemption will become due and payable on such redemption date at the redemption price, plus interest accrued and unpaid to the redemption date. So long as a book-entry system is used for determining ownership of the 2012 Series B Bonds, the Trustee shall send the notice of redemption to DTC or its nominee, or its successor, and if less than all of the 2012 Series B Bonds are to be redeemed, DTC or its successor and Direct Participants and Indirect Participants will determine the particular ownership interests of 2012 Series B Bonds to be redeemed. Any failure of DTC or its successor or a Direct Participant or Indirect Participant to do so, or to notify a Beneficial Owner of a 2012 Series B Bond of any redemption, will not affect the sufficiency or the validity of the redemption of the 2012 Series B Bonds. Neither the City nor the Trustee can make any assurance that DTC, the Direct Participants or the Indirect Participants will distribute such redemption notices to the Beneficial Owners of the 2012 Series B Bonds, or that they will do so on a timely basis.

Substitution of Liquidity Facilities

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

A Substitute Liquidity Facility supporting the 2012 Series B Bonds shall be in an amount at least equal to the Liquidity Facility Requirement for the 2012 Series B Bonds. Any Substitute Liquidity Facility shall become effective with respect to the 2012 Series B Bonds on the Substitution Date therefor established pursuant to the Twenty-Fifth Supplemental Resolution (see the definition of "Substitution Date" in APPENDIX E hereto); *provided, however*, that the City furnishes to the Tender Agent (i) an opinion of counsel of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that the substitution of such Substitute Liquidity Facility for the Liquidity Facility then in effect is authorized or

permitted by the Resolution and will not cause the interest on the 2012 Series B Bonds to become includable in gross income for federal income tax purposes; (ii) either (A) written evidence from each Rating Agency then rating the 2012 Series B Bonds to the effect that such Rating Agency has reviewed the proposed Substitute Liquidity Facility and stating the ratings of the 2012 Series B Bonds after substitution of such Substitute Liquidity Facility or (B) a statement of an authorized officer of the City that no ratings have been obtained; (iii) if such Substitute Liquidity Facility is other than a letter of credit issued by a domestic commercial bank, an opinion of counsel to the effect that no registration of the 2012 Series B Bonds or such Substitute Liquidity Facility is required under the Securities Act of 1933, as amended; (iv) an opinion of counsel satisfactory to an authorized officer of the City to the effect that such Substitute Liquidity Facility is a valid and enforceable obligation of the issuer or provider thereof; and (v) all information required to give the notice of mandatory tender for purchase of the 2012 Series B Bonds, if required by the Twenty-Fifth Supplemental Resolution.

In the event that the 2012 Series B Bonds are in the Daily Mode or the Weekly Mode, if, in connection with the substitution of a Substitute Liquidity Facility for the Liquidity Facility then in effect, the 2012 Series B Bonds are not subject to mandatory tender for purchase on a Substitution Date (see "Mandatory Tender for Purchase – *Substitution of Liquidity Facility*" above), the Tender Agent will give notice as hereinafter described to the Holders of such 2012 Series B Bonds by mail, first-class postage prepaid, not less than fifteen and not more than 60 days preceding such Substitution Date. Such notice will (a) state the Substitution Date on which such substitution is expected to become effective; (b) contain a description of such Substitute Liquidity Facility and the Bank that is the issuer or provider thereof; and (c) state that if any Holder of a 2012 Series B Bond (or, if the 2012 Series B Bonds are subject to the book-entry only system of registration and transfer described in "BOOK-ENTRY ONLY SYSTEM" in APPENDIX A hereto, any Beneficial Owner thereof) does not desire to continue to hold such 2012 Series B Bond (or beneficial ownership interest therein) following such substitution, such Holder (or Beneficial Owner) must give notice of the tender of such 2012 Series B Bond (or beneficial ownership interest therein) by the time and in the manner described under the caption "Optional Tender for Purchase" above.

Registration and Transfer; Payment

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

For so long as a book-entry system is used for determining beneficial ownership of the 2012 Series B Bonds, such principal and interest shall be payable to DTC or its nominee. Disbursement of such payments to the Direct Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners of the 2012 Series B Bonds is the responsibility of the Direct Participants or the Indirect Participants. See "BOOK-ENTRY ONLY SYSTEM" in APPENDIX A hereto.

THE INITIAL LIQUIDITY FACILITY

[TO COME]

THE BANK

The information under this caption relates to and has been provided by the Bank for inclusion in this Official Statement. No representation is made by the City as to the accuracy, completeness or adequacy of such information. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to under this caption is correct as of any time subsequent to its date.

JPMorgan Chase Bank, National Association is a wholly owned subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Bank offers a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of March 31st, 2012, JPMorgan Chase Bank, National Association, had total assets of $1,842.7 billion, total net loans of $584.6 billion, total deposits of $1,188.5 billion, and total stockholder's equity of $134.3 billion. These figures are extracted from the Bank's unaudited Consolidated Reports of Condition and Income (the "Call Report") as of March 31st, 2012, prepared in accordance with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles. The Call Report including any update to the above quarterly figures is filed with the Federal Deposit Insurance Corporation and can be found at www.fdic.gov.

Additional information, including the most recent annual report on Form 10-K for the year ended December 31, 2011, of JPMorgan Chase & Co., the 2011 Annual Report of JPMorgan Chase & Co., and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission (the "SEC") by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017 or at the SEC's website at www.sec.gov.

THE CITY

General

Gainesville, home of the University of Florida, is located in north-central Florida midway between Florida's Gulf and Atlantic coasts. The City is approximately 125 miles north of Tampa, approximately 110 miles northwest of Orlando and approximately 75 miles southwest of Jacksonville. The Bureau of Economic and Business Research at the University of Florida estimated a 2011 population of 247,337 in the County. As of April 2011, an estimated 124,379 persons resided within the City limits. The economic base of Gainesville consists primarily of light industrial, commercial, health care and educational activities. The University of Florida is the State's oldest university and, with more than 50,000 students, is one of the largest universities in the nation.

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

Government

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

The following are the current members of the City Commission:

	Term Expires
Mayor Craig Lowe, At-Large	May 2013
Commissioner William Thomas Hawkins, At-Large, Mayor Pro-Tem	May 2014
Commissioner Yvonne Hinson-Rawls, District 1	May 2015
Commissioner Todd Chase, District 2	May 2014
Commissioner Susan Bottcher, District 3	May 2014
Commissioner Randolf M. Wells, District 4	May 2013
Commissioner Lauren Poe, At-Large	May 2015

THE UTILITIES SYSTEM

General

Under its home rule powers and pursuant to the Charter, the City owns and operates the System, which provides the City and certain unincorporated areas of the County with electric, natural gas, water, wastewater, and telecommunications service. Natural gas service is also provided to retail customers within the corporate limits of the City of Alachua, Florida ("Alachua") and the City of High Springs, Florida ("High Springs"). All facilities of the System are owned by the City, and all facilities, except the City's undivided ownership interest in CR-3, are operated by the City. The System is governed by the City Commission.

The electric system was established in 1912 to provide street lighting and electric service to the downtown area. Continuous expansion of the electric system and its generating capacity has resulted in the electric system serving an average of 92,272 customers in the fiscal year ended September 30, 2011 and having a maximum net summer generating capacity of 610.2 MW.

The natural gas system was acquired from the Gainesville Gas Company in 1990 to provide gas distribution throughout the City. The gas system served an average of 33,207 customers in the fiscal year ended September 30, 2011.

The water and wastewater systems were established in 1891 to provide water and wastewater service to the City. The water and wastewater systems served an average of 68,952 and 61,370 customers, respectively, in the fiscal year ended September 30, 2011. The water system has a nominal capacity of 54 Mgd and the wastewater system has a treatment capacity of 22.4 Mgd AADF.

The telecommunications system, GRUCom, was established in 1995 to provide communication services to the Gainesville area in a manner that would minimize duplication of facilities, maximize interconnectivity, simplify access, and promote the evolution of new technologies and business opportunities. GRUCom operates a state-of-the-art fiber optic network and current product lines include telecommunications transport services, Internet access services, communication tower antenna space leasing services, and public safety radio services.

Management of the System

Mr. Robert E. Hunzinger, General Manager for Utilities, was appointed General Manager for Utilities in March 2008. With more than 30 years of experience, Mr. Hunzinger has worked in all three sectors of the utility industry, including investor-owned, cooperative and municipal. Mr. Hunzinger oversees all operations of the combined electric, natural gas, water, wastewater and telecommunications utilities. Principal responsibilities include management for all planning, administration, customer service, engineering, organizational development, construction and operations for all utility responsibility areas in accordance with City policies. Additionally, he oversees the preparation and administration of the annual budget and is responsible for policy development and the implementation of policies adopted by the City Commission. He

reports directly to the seven-member City Commission as a Charter Officer. Mr. Hunzinger currently serves on the Board of Directors for The Energy Authority, Inc. ("TEA"), Colectric Partners, Inc. ("Colectric"), the Florida Municipal Power Agency ("FMPA"), the Florida Reliability Coordinating Council ("FRCC") and the Florida Electric Power Coordinating Group.

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

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

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

Ms. Shayla L. McNeill, Utilities Attorney, joined GRU in April 2011. Ms. McNeill was formerly an energy and utilities attorney for the United States Air Force, during which time she represented the United States Air Force on energy matters before Public Utilities Commissions throughout the United States. Ms. McNeill also spent a significant amount of time advising on utility issues in the Middle East. Ms. McNeill reviews and negotiates contracts for the purchase, sale and exchange of electric power, provides daily legal counsel, and represents the System before the courts and administrative bodies.

Mr. David M. Richardson, P.E., Assistant General Manager – Water and Wastewater Systems, was appointed in May 2005. Mr. Richardson was formerly responsible for system planning and long range water and wastewater facility planning. He joined the System in January 1986. Mr. Richardson oversees the construction, operation and maintenance of the System's water and wastewater treatment plants and the associated distribution and collection facilities, and is responsible for water and wastewater engineering.

Mr. John W. Stanton, Assistant General Manager – Energy Supply, was appointed in April 2008 after retiring from FPL Group as Vice President-Operation for FPL Energy (now Next Era Energy Resources) in 2002 and a successful consulting career thereafter. Mr. Stanton is responsible for planning, directing, coordinating and administering all activities and personnel for the System's Energy Supply Department including the System's power generation functions, a power engineering group, and a fuels management group, including the design, construction, operation and maintenance of related systems, projects, and contracts. Mr. Stanton also assists with risk management oversight on an executive team and acts as the System's Energy Supply Department's liaison with local, state, and federal agencies.

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

Labor Relations

The System presently employs approximately 894 persons. All personnel are City employees and are solely under the management of the City. Florida law prohibits public employees from striking.

Approximately 642 of the System's employees are represented by Local No. 3170 of the Communications Workers of America (the "CWA"). The City's collective bargaining agreement with the CWA expires on December 31, 2012. Management believes that the City's labor relations with respect to the System are excellent.

Permits, Licenses and Approvals

Management believes that all principal permits, licenses and approvals required to construct and operate the System's facilities have been acquired. Management further believes that the System is operating in compliance in all material respects with all such permits, licenses and approvals and with all applicable federal, state and local regulations, codes, standards and laws.

THE ELECTRIC SYSTEM

Service Area

The System provides retail electric service to consumers in the Gainesville urban area which includes the City and the surrounding unincorporated area. Wholesale electric service is provided to two wholesale customers: Seminole Electric Cooperative, Inc. ("Seminole") and Alachua. See "Energy Sales – *Retail and Wholesale Sales*" below. The electric facilities of the System currently serve approximately 124.5 square miles of the County, and approximately 77% of the population of the County, including the entire City, with the exception of the University of Florida campus, which is served principally by PEF. Electric service is also provided in the unincorporated areas of the County by PEF, Clay Electric Cooperative ("Clay"), Florida Power & Light Company ("FPL"), and Central Florida Electric Cooperative, Inc. The System has a territorial agreement with Clay which establishes a service boundary between the two utilities in the unincorporated areas of the County in order to clearly delineate, for existing and future service, those areas to be served by the System and those areas to be served by Clay. This agreement extends through 2017 and has been approved by the Florida Public Service Commission (the "FPSC").

Customers

The System has experienced relatively slow growth in customers in recent years, with slight decreases in the fiscal years ended September 30, 2010 and September 30, 2011 as population growth, the most significant factor in customer growth, has slowed under weak economic conditions. The following tabulation shows the average number of electric customers for the fiscal years ended September 30, 2007 through 2011.

	Fiscal Years ended September 30,				
	2007	**2008**	**2009**	**2010**	**2011**
Retail Customers (Average):					
Residential	80,237	82,399	82,668	82,504	81,900
Commercial and Industrial	9,675	10,450	10,461	10,424	10,372
Total	89,912	92,849	93,129	92,928	92,272

Of the 92,272 customers in the fiscal year ended September 30, 2011, 10,372 commercial and industrial customers provided approximately 47.15% of revenues from retail energy sales.

Energy Sales

The Energy Authority

TEA is a Georgia nonprofit corporation founded by publicly owned utilities in 1997 to maximize the value of their generation and energy resources in a competitive wholesale market. The System became an equity member of TEA on May 1, 2000. Other equity members include City Utilities of Springfield, Missouri, Cowlitz County Public Utility District, JEA, the Municipal Electric Authority of Georgia, Nebraska Public Power District, and South Carolina Public Service Authority. TEA has offices in Jacksonville, Florida and Seattle, Washington and provides power marketing, trading, and risk management services throughout most of the United States. The total resources managed by TEA (including the total capacity owned by TEA equity members and resource management partners) is 29,600 MW. TEA manages a diverse generation portfolio, of which approximately 91% is coal, petroleum coke, nuclear, or hydro power, and the volume of capacity represented has proven advantageous in terms of market presence. TEA's operations include the purchase and sale of power, transmission capacity acquisition and scheduling, natural gas and oil purchase and transportation, and financial trading and hedging under strictly observed risk policies.

Other than for retail load and several pre-existing bi-lateral long-term wholesale power agreements, TEA markets the System's generating resources in real-time, day-ahead, and longer-term power markets up to twelve months ahead. TEA also purchases all of the System's natural gas and manages the System's gas transportation entitlements. TEA's ability to find the best markets for the purchase and sale of power and excess natural gas transportation entitlements maximizes the efficient use of generation assets, reduces operating costs, and increases operating revenues of the System. TEA's ability to execute energy transactions on behalf of the System includes arranging for any transmission services required to accommodate such transactions. Each transaction is accomplished through the execution of a letter of commitment between the System and TEA for a specific capacity amount and duration, and with negotiated terms and prices. Examples of these power sales include short-term, emergency and economy sales, ranging from a period of months to a single hour. TEA also executes and manages financial hedges for its members, primarily in the form of NYMEX natural gas futures and options. TEA constantly monitors the credit of counterparties and manages credit security requirements on behalf of the System as well as other TEA members. TEA operates electrical, gas, and financial trading desks on a 24 hour per day, seven days a week basis with a market presence that the System or any of the other TEA members would be very unlikely to attain on its own.

TEA settles the transactions it makes for its members under terms set forth in settlement procedures adopted by its Board of Directors. The excess (or deficiency) of TEA's revenues over (or under) its costs also are allocated among its members pursuant to such procedures. For a discussion of the System's investment in TEA and its commitments to TEA as of September 30, 2011, see Note 14 to the financial statements of the System set forth in APPENDIX B attached hereto. See also "Energy Supply System – *Fuel Supply – Natural Gas*" below for additional discussion of TEA's role in supplying natural gas for the System.

Retail and Wholesale Sales

In the fiscal year ended September 30, 2011, the System sold 1,994,405 megawatt hours ("MWh") of electric energy to its retail and firm wholesale customers (excluding interchange and economy sales). The System currently has firm "all requirements" wholesale sales contracts with Seminole and Alachua. "All requirements" services include control area voltage and frequency regulation and all other ancillary services. Total energy sales to these customers have had an average annual rate of growth of 3.3% per year from the fiscal year ended September 30, 2009 through the fiscal year ended September 30, 2011. Year-to-year variability is due primarily to the effects of weather on heating and cooling loads. The following table shows the System's sales in MWh and average use of electricity, in kilowatt hours ("kWh"), by customer class, for the fiscal years ended September 30, 2007 through September 30, 2011. For the fiscal year ended September 30, 2011, there was a 1.5% decrease in residential MWh sales from the fiscal year ended September 30, 2010. This decrease was the result of customer response to rate increases, economic conditions, weather and customer participation in System-sponsored conservation programs.

Retail and Wholesale Energy Sales

	Fiscal Years ended September 30,				
	2007	**2008**	**2009**	**2010**	**2011**
Energy Sales–MWh:					
Residential	877,650	829,394	806,832	832,993	820,584
General Service, Large Power and Other	981,820	992,684	964,178	995,814	966,969
Firm Wholesale	181,552	193,341	200,778	211,518	206,852
Total	2,041,022	2,015,419	1,971,488	2,040,325	1,994,405
Average Annual Use per Customer–kWh:					
Residential	10,938	10,066	9,756	10,096	10,019
General Service, Large Power and Other	101,481	94,994	92,174	95,531	93,229

The System has had a wholesale electric service contract with Seminole to serve a Clay substation adjacent to the west side of the System's service area since 1975. The contract extends through December 2012, and negotiations currently are underway to renew this contract. The System sold 84,392 MWh to Seminole in the fiscal year ended September 30, 2011 and collected $6,252,221 in revenues from those sales, which represented approximately 4.2% of total energy sales (excluding interchange sales) and 2.3% of total sales revenues. The System has had a wholesale contract with Alachua since 1988, which was renewed on January 1, 2011 for a term of ten years. The contract includes management of Alachua's 655 kilowatt ("kW") (0.0779%) share of CR-3 and its 263 kW (0.032%) share of the St. Lucie No. 1 and No. 2 nuclear units, as well as NERC (hereinafter defined) compliance responsibilities. During the fiscal year ended September 30, 2011, the System sold 122,460 MWh to Alachua and received $8,492,504 in revenues from those sales, which represented approximately 6.1% of total energy sales (excluding interchange sales) and 3.1% of total sales revenues.

Interchange and Economy Wholesale Sales

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

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

	2007	**2008**	**2009**	**2010**	**2011**
Net Revenues	$1,698	$1,890	$1,064	$1,452	$197
Percent of Total Electric System Net Revenues	1.5%	2.8%	1.4%	1.6%	0.2%

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

Interchange and Economy Wholesale Purchases

Interchange and economy wholesale purchases made when power is available from the market at prices below the System's production costs are among the factors that allow the System to assure competitive power costs for retail and firm wholesale customers. Purchases of less than twelve-months' duration are made through TEA, whereas longer-term contracts are negotiated by the System's staff. The benefits of the System's purchases are passed on to retail and firm wholesale customers by affecting the fuel and purchased power adjustment portion of their rates (see "RATES – Electric System" herein). In the fiscal year ended September 30, 2011, 18% of power for retail and wholesale sales were obtained through off-system purchases, allowing customers to benefit from less expensive gas-fired power available for purchase from the market.

Demand-Side Management

The System employs cost-effective demand-side management ("DSM") programs as one way to meet the energy needs of its retail customers. It has been offering DSM programs since 1980. Currently, it is estimated that over 11% of the System's customers' energy needs have been met by DSM and renewable energy, the highest percentage reported by any electric utility in Florida. These programs contribute in part to the System having the lowest electrical use per residential customer of any urban area in Florida. Early in 2009, an independent third-party, KEMA, was retained by the System to verify the energy and demand savings achieved by selected programs during the period January 2006 through December 2008. The results of the study showed that the estimated savings have been achieved to date.

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

In April 2006, the City Commission provided direction to the System's staff to maximize DSM opportunities. DSM program implementations are estimated to have provided 20.4 MW of summer peak reduction cumulative since 2006 and 102,391 MWh in annual energy savings through the year 2011. The System plans to continue and expand its DSM programs as a way to cost-effectively meet customers' needs and hedge against potential future carbon tax and trade programs.

Green Power

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

Since 2006, renewable energy and carbon management strategies have become a major component of the System's long-term power supply acquisition program. These renewable resources include additional landfill gas to energy capacity, solar rebates and net metering. The System also has the nation's first European-style solar feed-in-tariff (discussed below) to be offered by a utility, and has entered into a long-term

power purchase agreement ("PPA") for the purchase of 100 MW (net firm) of biomass-fueled power generation. The costs of acquiring these resources are either included in the System's base rates or its fuel and purchased power adjustment clause, resulting in recovery from all customers. The energy that has been obtained through the System's renewable energy and carbon management strategies has eclipsed the equivalent amount of energy being obtained to support "GRUGreen™." Consequently, the "green power" customer contribution program has been retired.

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

Energy Supply System

Generating Stations

The System owns and operates generating facilities that have a net summer system capability of 610 MW. Combined with the firm 50 MW of capacity from the PEF PPA described under "*Long-Term Wholesale Power Contract*" below, the System has a planning reserve margin of 50% for the summer of 2012. The System's three generating stations are the John R. Kelly Station ("JRK Station"), the Deerhaven Generating Station ("DGS"), and the South Energy Center plant site (each described herein). The System also owns a small share of CR-3, a nuclear generating unit operated by PEF. In addition, the System is entitled to 100% of the output under contract from a 3.8 MW "landfill gas to energy" power plant at the Baseline Landfill in Marion County, Florida. These facilities are connected to the Florida grid and to the System's service area over 138 kilovolt ("kV") and 230 kV transmission facilities that include three interconnections with PEF and one interconnection with FPL.

See also "Energy Sales – *Interchange and Economy Wholesale Purchases*" above for a discussion of certain power purchases employed to allow the System to assure competitive power costs.

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

Existing Generating Facilities		Fuels		Net Summer Capability (MW)
Plant Name	**Unit No.**	**Primary**	**Alternative**	
J.R. Kelly Station				
	Steam Unit 8	Waste Heat	—	37.00
	Steam Unit 7	Natural Gas	Residual Fuel Oil	23.20
	Combustion Turbine 4	Natural Gas	Distillate Fuel Oil	75.00
	Combustion Turbine 3	Natural Gas	Distillate Fuel Oil	14.00
	Combustion Turbine 2	Natural Gas	Distillate Fuel Oil	14.00
	Combustion Turbine 1	Natural Gas	Distillate Fuel Oil	14.00
				177.20
Deerhaven Generating Station				
	Steam Unit 2	Bituminous Coal	—	232.00
	Steam Unit 1	Natural Gas	Residual Fuel Oil	75.00
	Combustion Turbine 3	Natural Gas	Distillate Fuel Oil	75.00
	Combustion Turbine 2	Natural Gas	Distillate Fuel Oil	17.50
	Combustion Turbine 1	Natural Gas	Distillate Fuel Oil	17.50
				417.00
Crystal River[(1)]				
	Nuclear Steam Unit 3	Uranium	—	11.90
South Energy Center				
	SEC-1	Natural Gas	—	4.10
System Total				610.20

(1) As described under "*Crystal River 3*" below, in September 2009, CR-3 was taken out of service for repairs and PEF began providing replacement power to the System.

John R. Kelly – The JRK Station is located in downtown Gainesville and consists of one steam turbine, one combined cycle combustion turbine unit, and three simple cycle combustion turbines, providing a total net summer generation capability of 177 MW from the site. The combined cycle unit was completed in May 2001 and demonstrates Management's ability to garner the support of the community to implement system expansions and improvements. The combined cycle unit was developed by repowering the former JRK Station Unit 8 with a heat recovery steam generator utilizing waste heat from a new GE 7EA combustion turbine. During the fiscal year ended September 30, 2011, the JRK Station combined cycle unit provided 13.3% of GRU's net generation. All of the JRK Station units are equipped for either oil or gas firing.

Deerhaven – The DGS is located approximately six miles northwest of Gainesville and encompasses approximately 3,474 acres, which provides room for future expansion as well as a substantial natural buffer. A unique aspect of the site is that it was the first "zero water discharge" power plant built east of the Mississippi River. No industrial wastewater or contaminated stormwater leaves the site, as it is concentrated until only brine salt remains. The brine salt was historically deposited into a secure landfill on the DGS site. Due to capacity constraints onsite, the brine salt is currently transported to a secure landfill offsite. The DGS consists of two steam turbines and three combustion turbines with a net summer capability of 417 MW. DGS Unit 1 ("Deerhaven 1") is a steam unit equipped for oil/gas firing with a net summer capability of 75 MW. DGS Unit 2 ("Deerhaven 2") is a coal-fired steam unit that was placed into commercial operation in October 1981 with a net summer capability of 232 MW. There are also three quick-start combustion turbines on the DGS site. Two combustion turbines are rated at 17.5 MW each, with the third combustion turbine rated with a net

summer capability of 75 MW and equipped with dry low nitrogen oxide ("NO_x") combustors and water injection for NO_x control while combusting natural gas and No. 2 fuel oil, respectively. Each of these turbines is capable of firing on natural gas or distillate fuel oil. Deerhaven 2 combusts coal in combination with an electrostatic precipitator for particulate control, a dry circulating scrubber (for sulfur dioxide ("SO_2") reduction and the co-benefit of reduced mercury), a selective catalytic reduction ("SCR") system (for NO_x reduction) and aids in mercury removal by the scrubber), and fabric filters (to also reduce particulate matter) to meet its regulatory requirements. Deerhaven 2 has historically been the System's most economical unit to run, but given recent exceptionally low natural gas prices, production costs from Deerhaven 2 and the combined cycle unit at the JRK Station are often comparable. Although it represents only 37% of the System's total generating capacity, Deerhaven 2 provided most of the System's energy, approximately 74%, for the five fiscal years ended September 30, 2011. For the five fiscal years ended September 30, 2011, Deerhaven 2 maintained an average operating availability of 87.1%. The operating availability for the fiscal year ended September 30, 2011 was 88.6%. Operating availability represents the percentage of time the unit was available to serve load at any output level.

While Deerhaven 2 has been GRU's most economical base load unit since construction, current changes in fuel supply economics may shift its economic dispatch position in the near term. The growth in natural gas production from shale reserves coupled with economic contraction have led to market oversupply and depressed natural gas prices. Natural gas prices for calendar year 2011 have led to competition for economic dispatch between Deerhaven 2 and the combined cycle unit at the JRK Station. This interplay between coal units and combined cycle units running on relatively inexpensive natural gas is currently playing out on power generation systems throughout the United States. Given projections for natural gas production and prices and projected coal prices, it is anticipated that Deerhaven 2's contribution to system total energy may decrease with the reduction reflected as an increase in natural gas combined cycle production from the combined cycle unit at the JRK Station during fiscal years 2012 and 2013.

Deerhaven 2 was retrofitted in May 2009 with additional emissions control equipment to meet the EPA's Clear Air Interstate Rule ("CAIR") and Clean Air Mercury Rule ("CAMR"). To control SO_2, NO_x, mercury, and particulate matter, Deerhaven 2 installed, in the spring of 2009, an SCR system, a dry circulating scrubber system, and a fabric filter system. Performance testing during 2010 demonstrated the efficacy of these facilities to meet their emission removal requirements. The auxiliary electric loads associated with these facilities resulted in a loss of approximately 4.0 MW summer net rating. A steam turbine upgrade in the fall of 2011 resulted in a recovery of this lost capacity. Significant investments were made in Deerhaven 2 during the emission systems installation to assure the continued reliable operation of the unit. Such investments included the replacement of the primary superheater boiler tubes, an overhaul and upgrade of four of the ten cooling towers, replacement of the control room consoles with digital displays, and an overhaul of the generator. Additionally, the original burners were replaced with "state-of-the-art" low NO_x burners which reduce the amount of NO_x produced by the boiler, consequently reducing the consumption of urea by the SCR. See "FACTORS AFFECTING THE UTILITY INDUSTRY – Air Emissions" herein for a more detailed discussion of the federal Clean Air Act, as amended (the "Clean Air Act"), its impact on the DGS, and certain judicial and regulatory actions affecting CAIR and CAMR.

Crystal River 3 – CR-3 is a nuclear powered electric generating unit with a current net summer capability of 838 MW, located on the Gulf of Mexico in Citrus County, Florida, approximately 55 miles southwest of Gainesville. The System owns a 1.4079% ownership share of CR-3 equal to 12.102 MW (11.846 MW delivered to the System). The System's share of CR-3 represents less than 2% of the System's total generating capability. As of September 30, 2011, the System's net investment in CR-3 was approximately $17.6 million. The power from this unit is transmitted over PEF's transmission system to its points of interconnection with the System pursuant to a tariff filed with the Federal Energy Regulatory Commission ("FERC").

In September 2009, CR-3 was taken out of service for refueling and replacement of two steam generators, which required cutting through the reactor containment vessel. As has been reported by PEF, during preparations to replace the steam generators, workers discovered a delamination (or separation) within

the concrete of the outer wall of the containment building, which resulted in an extension of the outage. In March 2011, engineers determined that a new delamination had occurred in another area of the structure after initial repair work was completed and during the late stages of retensioning the containment building. Subsequent to March 2011, as reported by PEF, monitoring equipment has detected additional changes and further damage in the partially tensioned containment building and additional cracking or delaminations could occur during the repair process. According to PEF, engineering design of the repair is underway and the preliminary cost estimate of the repair, as filed with the FPSC on June 27, 2011, is between $900 million and $1.3 billion, of which the System's share would be between approximately $12.6 million and $18.2 million. The System is unable to predict the ultimate cost of such repairs. In June 2011, PEF notified the Nuclear Regulatory Commission (the "NRC") and the FPSC that it plans to repair the CR-3 containment structure and estimates that CR-3 will return to service in 2014. PEF has reported that "[a] number of factors could affect the repair plan, the return-to-service date and costs, including regulatory reviews, final engineering designs, contract negotiations, the ultimate work scope completion, testing, weather, the impact of new information discovered during additional testing and analysis, and other developments."

In 2002, the System obtained an 87.5% capacity factor guarantee from PEF as settlement of a dispute related to management of CR-3. Under this guarantee, PEF is obligated to either immediately provide replacement power for CR-3 from elsewhere in its system or reimburse the System for replacement power, on a two-year true-up cycle. The capacity factor guarantee from PEF has been activated during the current extended outage and GRU has received replacement power from PEF on a consistent basis. This capacity factor guarantee agreement will expire in December 2013, prior to CR-3's estimated return to service. The System has sufficient capacity to readily replace this nuclear capacity. Since CR-3 ownership represents less than 2% of the System's generating capacity and natural gas prices are expected to remain low, the impact of the cost of replacement energy is estimated to be an increase of approximately 3% of the System's annual fuel cost.

PEF maintains insurance for property damage and incremental costs of replacement power resulting from prolonged accidental outages from Nuclear Electric Insurance, LTD. ("NEIL"). According to PEF, NEIL has confirmed that the CR-3 initial delamination is a covered accident but has not yet made a determination as to coverage for the second delamination. PEF reports that it is continuing to work with NEIL for recovery of applicable repair costs and associated replacement power costs. PEF has not yet received a definitive determination from NEIL and has concluded that, at December 31, 2011, it was not probable that NEIL will voluntarily pay the full coverage amounts PEF believes NEIL owes under the applicable insurance policies. To the extent that NEIL does not cover damages relating to the second delamination, the System may be responsible for its ownership share of costs to repair CR-3. The balance of costs not expected to be covered by insurance has not been included in the System's six-year capital program for the electric system. PEF has indicated that it may offer to the System and the other minority co-owners of CR-3 a capacity factor guarantee to be effective upon the expiration of the current capacity factor guarantee agreement and also has indicated that the agreement could contain a limitation on the amount of capital expenditures payable by the System and the other minority co-owners of CR-3. There can be no assurance that any such agreements among PEF and the minority co-owners of CR-3 will be entered into.

CR-3's current license from the NRC expires in 2016. PEF is in the process of re-licensing the plant for an additional twenty years. The various upgrades, renewals and replacements associated with this re-licensing are expected to result in additional capacity, which will be quantified following re-licensing. In 2009, the NRC accepted for review PEF's application for renewal of the CR-3 operating license. According to PEF, the license renewal application for CR-3 is currently under review by the NRC and the remaining open items in the license renewal review process are associated with review of the containment structure. There can be no assurance that the license renewal process will not result in increased costs as a result of additional requirements in connection with the repair of the containment structure or as a result of the NRC's study of the nuclear incident in Japan. See "FACTORS AFFECTING THE UTILITY INDUSTRY – March 2011 Events in Japan" herein.

The System is unable to predict whether the repairs to CR-3 will be completed as expected, or whether CR-3's license will be renewed beyond 2016 by the NRC. Management does not believe that any failure of PEF to return CR-3 to service at any time, or to obtain a renewal of CR-3's license from the NRC, would have a material adverse effect on the System.

According to filings made by it with the FPSC in 2008, PEF has estimated that its cost to decommission CR-3, in 2008 dollars, is $751 million. This estimate was based on the assumption that CR-3's current license from the NRC will be extended for an additional twenty years. PEF has reported that its estimate is based on prompt dismantlement decommissioning and includes interim spent fuel storage costs associated with maintaining spent nuclear fuel on site until it can be transferred to a permanent storage facility to be constructed and operated by the United States Department of Energy (the "DOE"). PEF has reported that the cost estimate is subject to change based on a variety of factors including, but not limited to, cost escalation, changes in technology applicable to nuclear decommissioning and changes in federal, state or local regulations. Based upon an estimate provided to the System by PEF in September 2006, the System has estimated its share of future CR-3 decommissioning costs to be $7.7 million, of which $5.2 million has been deposited with a fiduciary in an external fund. The System estimates that the $7.7 million is expected, with reinvestment and interest earnings, to reach $24.7 million in total, which will be used in 2041 to pay the costs of decommissioning CR-3. The market value of the funds on deposit was $10.0 million as of September 30, 2011. The System's estimated share of future decommissioning costs is based on information that has been provided to it by PEF. In calculating its estimates, PEF assumed that CR-3's current license will be extended by the NRC. If the license is not extended and decommissioning is required to commence upon the expiration of the current license, there can be no assurance that the System will have sufficient funds accumulated by such time to pay for its entire share of decommissioning costs. See "FACTORS AFFECTING THE UTILITY INDUSTRY – Nuclear Decommissioning" herein.

See also "FACTORS AFFECTING THE UTILITY INDUSTRY – Nuclear Waste Disposal Regulation," "– Nuclear Decommissioning" and "INSURANCE" herein for a discussion of certain other matters relating to CR-3.

South Energy Center – The System is operating the recently constructed combined heat and power facility (the "South Energy Center") dedicated to serve a new cancer hospital constructed by Shands Teaching Hospital and Clinics Inc. ("Shands") at the University of Florida. The facility provides a net baseload generation capacity of 4 MW while providing waste heat to produce steam and chilled water for the hospital. The 500,000 square foot, 200 bed hospital commenced commercial operations in November 2009. The South Energy Center is owned and operated by the System, and provides steam, chilled water, medical gas, and emergency and standby power services under a 50-year "cost plus" contract with Shands. The medical campus will include 3,000,000 square feet of facilities at buildout, the timing of which is contingent upon future economic conditions. During the fiscal year ended September 30, 2011, the South Energy Center provided 1.5% of GRU system net generation.

Baseline Landfill – The System has entered into a fifteen-year contract for the entire output of electricity to be generated from landfill gas derived from the Baseline Landfill in Marion County, Florida. Construction of the facility was completed and the facility was placed in service in December 2008. The landfill is actively expanding and additional capacity is projected for the future. Power from the Baseline Landfill is wheeled to the System over PEF's transmission system.

Long-Term Wholesale Power Contract – In 2008, the System entered into a long-term PPA with PEF to hedge against volatile natural gas prices and add economic baseload capacity. This agreement is for around the clock firm energy priced at the average of all PEF's baseload unit production costs, including PEF's nuclear, coal, combined cycle, and co-generation units. Capacity is provided on a native load firm basis and the System holds title to the power and may remarket such power if so desired. The term of the PPA began on April 1, 2008 and extends through December 31, 2013, and such PPA provides for the purchase by the System of 50 MW.

Fuel Supply

The objectives of the System's fuel procurement and management strategy are: (1) diversification of fuel mix and fuel sources, (2) continuous improvement of delivered fuel cost through innovative contract procurement and the use of short-term suppliers, (3) optimization of the quality of fuel and market price to achieve environmental compliance in the most effective and competitive manner possible, (4) reduction in the impact of price volatility in fuel markets through physical and financial risk management of the fuel supply portfolio and (5) participation in joint procurement programs with other municipal systems to maximize the price benefits of volume purchasing. The flexibility afforded by these actions allows the System to take advantage of changes in relative fuel prices and strategically adjust its use of coal, natural gas or fuel oil to optimize its fuel costs. For the fiscal year ended September 30, 2011, the System's fuel mix was as follows: coal 77.6%; natural gas 22.0%; and oil 0.4%, as a percentage of net generation.

GRU, as both a buyer in the fuel markets and a producer of power, hedges risk and volatility by the use of futures and options. GRU's hedging activities are primarily limited to natural gas futures and options. GRU's exposure to financial market risk through hedging activity is limited by a written policy and procedure, oversight by a committee of senior division managers, financial control systems, and reporting systems to the General Manager for Utilities.

Coal – The System currently has a long-term transportation contract for coal transportation with CSX Transportation that extends through 2019, and owns a fleet of 116 aluminum rapid-discharge rail cars that are in continuous operation between the DGS and the coal supply regions. Coal inventory at the DGS is normally maintained at approximately 40-50 day supply, based on projected burn, anticipated disruptions in coal supply or rail transportation, or short-term market pricing fluctuations. The System's coal procurement strategy is to meet forecasted coal requirements primarily through reliance upon long-term fuel supply agreements with reputable coal producers. This strategy allows the System to reduce supply risk, decrease price volatility, insulate customers from short-term price swings, and exert better control over the quality of coal delivered to the DGS. Short-term procurement is based on opportunities for cost savings through spot purchases, the need to evaluate new coal sources through test burns, or to take advantage of a producer's excess coal production capacity. The System's baseload coal supply agreements with Blackhawk Mining, LLC ("Blackhawk Mining"), Alpha Coal Sales Co., LLC ("Alpha Coal") and Peabody COALTRADE, LLC ("Peabody") are effective through January 2013, February 2013 and March 2013, respectively, for a coal volume of 447,600 tons annually or approximately 75% of the System's coal supply requirements for 2012. This supply position is consistent with the System's market strategy of maintaining at least 70 - 75% of its coal supply under long-term (one to three years) contracts and the remainder under short-term (one year or less) contracts. As the fuel and power generation market economics have changed, GRU has modified its approach to coal supply contracting to reduce market risk and increase flexibility. The current and near term projections for natural gas prices will reduce coal generation on the GRU system. GRU has retained some flexibility to participate in the current natural gas market at depressed prices. The installation of the Deerhaven 2 scrubber and SCR will also allow GRU to use non-traditional sources and qualities to reduce the overall coal generation cost and compete more effectively with natural gas generation. The adaptation of the coal procurement strategy and the increased flexibility of the Deerhaven 2 scrubber and SCR have been incorporated into a "Five Year Fuel and Generation Plan" that seeks to reduce and optimize the cost of power generated on the GRU system.

Natural Gas – Natural gas supply for both the electric system and the natural gas distribution system is transported to the System by FGT under long-term contracts for daily firm pipeline transport capacity. The contracts are priced under transportation tariffs filed with FERC. The System's natural gas supplies are transported from Gulf Coast producing regions in Texas, Louisiana, Mississippi and Alabama. Natural gas volumes greater than the System's firm transportation contract entitlements are supplied either through interruptible transportation capacity or through the use of excess delivered capacity from other suppliers on FGT, as arranged by TEA which has combined purchasing power to ensure capacity. For the fiscal year ended September 30, 2011, the System consumed 4,008,256 million British thermal units ("MMBtu's") of natural gas in electric generation and 2,236,286 MMBtu's for the distribution system. The average cost of gas delivered to the System in the fiscal year ended September 30, 2011 was $6.02/MMBtu. For the current fiscal year, the

System's projected average cost of gas delivered is $5.29/MMBtu. The System analyzes, investigates, and participates in opportunities to hedge its natural gas requirements as well as provide greater reliability of supply and transportation for customers. These opportunities include pipeline tariff discussions and negotiations, review of potential liquefied natural gas projects and supply offers, review of potential long-term purchases, natural gas supply baseload contracts, and the purchase and sale of financial NYMEX commodity contracts and options. TEA is a market participant that provides comprehensive energy trading, analysis, strategies and recommendations to the System's Risk Oversight Committee ("ROC"). TEA is responsible for procurement of daily physical volumes and management of pipeline transportation entitlements, as well as the execution of financial hedging transactions on the System's behalf. ROC provides direction and oversight on hedging to TEA. See "Energy Sales – *The Energy Authority*" above.

Oil – The role of heavy (residual) and light (distillate or diesel) fuel oils as generation fuels on the GRU system has changed over the past five years. In fiscal year 2006, heavy fuel oil and natural gas were priced at approximately the same level ($8.00/MMBtu). Natural gas and heavy oil competed for dispatch on the system. Since 2007, the price of heavy and light fuel oils relative to natural gas has transformed the two fuels to emergency and/or backup status on the system. For the fiscal year ended September 30, 2011, heavy fuel oil for generation was priced at $10.94/MMBtu and light oil at $16.51/MMBtu. At current and projected price levels, GRU's oil/gas capable units are not projected to operate on fuel oil except in emergency, testing or backup modes. For the fiscal year ended September 30, 2011, heavy and light fuel oils accounted for only 0.4% of net generation. This level of contribution is not projected to change in the near term. When it does become necessary to replenish inventory for any unit, the System seeks to control the costs by purchasing forward supply at fixed prices and timing market entry points to take advantage of favorable pricing trends.

Nuclear – PEF, as operator of CR-3, is contractually responsible for nuclear fuel supply, including uranium concentrates, enriching services and fabrication of fuel for CR-3. Spent nuclear fuel is stored at CR-3 until it can be transported and disposed of at disposal sites that are scheduled to become operational, under a contract with the DOE. At the present time, PEF has facilities on-site to accommodate storage of spent fuel to support continued operations through 2036. The System owns a 1.40790% share of CR-3. As described under "THE ELECTRIC SYSTEM – Energy Supply System – *Generating Stations – Crystal River 3*" herein, in September 2009, CR-3 was taken out of service for repairs.

Transmission System, Interconnections and Interchange Agreements

The System has a looped transmission system with ample interconnection capacity to import sufficient power to serve its territory under the extreme worst case planning scenario. This scenario assumes that the System's three largest generating units (comprising nearly 65% of the System's total generating capacity) are out of service. Reactive power support is located at Parker Road Switch Station, Sugarfoot Substation, and McMichen Substation to improve the System's import capacity. The System's transmission system circles the GRU service area and connects three switching stations, eight loop-fed substations, and four radial-fed substations with a 138 kV loop system that provides a high degree of reliability to serve retail loads as well as Alachua and portions of Clay's territory. A new loop connected switching station (Hague) is under construction to provide an interconnection point for the Gainesville Renewable Energy Center ("GREC"). GREC is scheduled for commercial operation in late 2013 with an output of 100 MW. The energy products will be provided to the System through a PPA and fueled by woody waste biomass. In a looped system, the loss of any single circuit between looped substations will not interrupt service as the substation can be served from the other direction. If the circuit feeding a radial-fed substation is lost, it can be served by distribution remote and field switching to adjacent distribution circuits of another substation. The System's transmission loop has four interconnections with Florida's transmission grid, connecting to PEF to the west and the south and to FPL to the east. The System has three interconnections with PEF, one at PEF's Archer Substation over a 230 kV transmission line, and two at PEF's Idylwild Substation over a 138 kV transmission line and a 138/69 kV transformation. The System also has a 138 kV transmission interconnection at FPL's Hampton Substation. The present transmission network consists of approximately 117.2 circuit miles of 138 kV and 2.5 circuit miles of 230 kV. The System has interchange agreements in place with all of the major generating

utilities in Florida that allow power to either be purchased or sold anywhere in Florida by transporting ("wheeling") power through either PEF or FPL. The System is a member of FRCC. FRCC is a region of the North American Electric Reliability Council, Inc. ("NERC") and consists of virtually all of the electric utilities in Peninsular Florida. As a member of FRCC, the System participates in sharing reserves for reliability purposes with other generating utilities in Florida, resulting in a substantial reduction in the amount of reserves required for proper operation and reliability.

Electrical Distribution

All of the System's distribution substations are loop-fed or radial-fed from the 138 kV transmission looped system. The System currently has six loop-fed substations and three radial-fed substations connected to the transmission network, which feed power to the 12.47 kV distribution network. The transmission and distribution facilities are fully modeled in a geographical information system ("GIS"). The GIS is integrated with the System's automated trouble system that allows customer calls to be linked to specific devices to enhance service restoration. The integrated GIS is also used extensively in routing loads to specific circuits, planning distribution and substation system improvements, and supporting restoration efforts resulting from extreme weather damage. Approximately 60% of the distribution system's circuit miles are underground, which is among the highest percentages in Florida. An additional substation is planned near US 441 and NW 53rd Ave. for 2019 to improve reliability and flexibility in serving the growing load in the System's territory.

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

Capital Improvement Program

As more fully discussed in the first paragraph under "ADDITIONAL FINANCING REQUIREMENTS" herein, the numbers shown below reflect the six-year capital improvement program expected to be submitted by Management for approval by the City Commission in connection with its approval of the System's annual budget for the fiscal year ending September 30, 2013, except that the numbers shown for the fiscal year ending September 30, 2012 reflect the capital improvement program approved by the City Commission for such fiscal year in September 2011 in connection with its approval of the System's annual budget for such fiscal year, updated to reflect (a) actual electric capital improvement program expenditures to date and (b) Management's estimate of electric capital improvement program expenditures to be incurred through the remainder of the current fiscal year. Management's projected six-year electric capital improvement program requires a total of approximately $268,693,000 in capital expenditures between the fiscal years ending September 30, 2012 through 2017, inclusive. A breakdown of the categories included in the six-year capital improvement program is outlined below. No assurances can be given as to the amount of expenditures that will be included in the new capital improvement program ultimately approved by the City Commission for the fiscal years ending September 30, 2013 through 2017 in connection with its approval of the System's annual budget for the fiscal year ending September 30, 2013.

Electric Capital Improvement Program

	Fiscal Years ending September 30,						
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
	(dollars in thousands)						
Generation and Control	$33,520	$19,928	$22,026	$29,083	$22,980	$15,775	$143,312
Transmission and Distribution	10,932	11,637	12,065	12,587	12,471	13,016	72,708
Miscellaneous and Contingency	11,110	8,926	8,554	7,746	7,997	8,340	52,673
Total	$55,562	$40,491	$42,645	$49,416	$43,448	$37,131	$268,693

Loads and Resources

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

Fiscal Year	Net Summer System Capability (MW)[1]	Firm Interchange Sales (MW)	Peak Load (MW)[2]	Actual / Projected Planning Reserve Margin	
				MW	Percent
Historical					
2007.....	611	0	481	130	27
2008.....	659	0	457	202	44
2009.....	709	0	465	244	52
2010.....	710	0	470	240	51
2011.....	664	0	445	219	49
Projected					
2012.....	668	0	445	223	50
2013.....	669	0	449	220	49
2014.....	672	0	450	222	49
2015.....	673	0	452	221	49
2016.....	652	0	454	198	44

(1) Based upon summer ratings. DGS CT-3 (75 MW) was placed in service in January 1996. In 2001, JRK Station Unit 8 was re-powered with JRK Station CT-4 into a combined cycle configuration for a net gain of 60 MW. Auxiliary loads associated with additional emission control equipment on Deerhaven 2 reduced capacity by 3 MW in 2009. An upgrade of the Deerhaven 2 steam turbine increased net summer capability to 232 MW. 3 MW of capacity from the Baseline Landfill was added in 2008, and 4.1 MW from the South Energy Center was added in 2009. Three 0.64 MW landfill gas to energy units were retired in 2009, a purchase of 50 MW of firm baseload capacity ending December 31, 2013 began in 2008 and another purchase of 25 MW year round, 50 MW summer of firm baseload capacity began in 2009 and ended December 31, 2010. Imported firm capacity has been adjusted for losses in the table above. Additional resources include 4 MW per year solar beginning in 2009 with a coincident capacity factor of 35%, and 3.8 MW from the Baseline Landfill. The biomass plant is not assumed to be operational at the time of System peak in 2013, but 50 MW of biomass is included in 2014, 2015 and 2016 values.

(2) Summer peak forecast incorporates GRU's aggressive conservation and DSM plan, which is projected to result in additional peak load reductions (in addition to the reductions achieved through 2011) of 5 MW by 2013, 9 MW by 2015 and 18 MW by 2020. The plan includes conservation incentive retail rates and distributed renewable resources as well as incentive and information programs related to appliance and end use efficiency. The summer peak forecast presented here also includes Alachua and Seminole all-requirements wholesale contracts which are given the same precedence as native load.

Mutual Aid Agreement For Extended Generation Outages

The System has entered into a mutual aid agreement for extended generation outages with seven other consumer-owned generating utilities in north central Florida and Georgia. Participating with the System in this agreement are FMPA, JEA, Lakeland Electric, Orlando Utilities Commission, the City of Tallahassee, Seminole, and the Municipal Electric Authority of Georgia. Participants have committed to provide replacement power in the event of a long-term (two to twelve month) outage of one of the baseload generating units designated under the agreement. Each utility will provide a pro-rata share of the replacement power and will be reimbursed at an indexed price of gas assuming a heat rate that corresponds to a combined cycle gas-fired generating unit. The System has designated 100 MW of the capacity of Deerhaven 2 to be covered under the agreement. The mutual aid agreement has been renewed and extended through November 2012.

Future Power Supply

General

Forecasts of load growth indicate that existing generating resources will be adequate through 2023 to maintain a 15% generation planning reserve margin. This is later than previous studies had indicated due to the incorporation of additional DSM measures, the institution of the solar feed-in-tariff, the addition of the

South Energy Center and the Baseline Landfill purchase, PEF's assessment of the capacity gains from the CR-3 modifications into the System's Integrated Resource Plan ("IRP"), and more conservative customer growth and sales forecasts. Management's strategy to maintain competitive power costs is to maintain the System's status as a self-generating electric utility with a diverse fuel supply that is enhanced with an advantageous PPA portfolio and meets all environmental standards and expectations of the local community. The ability to be self-generating has proven itself to be a powerful hedge against market volatility while maximizing reliability for native load. Important aspects of this strategy are the management of potentially stranded costs, maintenance of adequate transmission capacity, use of financial as well as physical techniques to hedge fuel costs, and long-term management of pipeline and rail transportation contracts and capacity.

The Planning Process

The System has an ongoing IRP process to support this strategy. Data on fuel price forecasts, construction and operation costs for generation technologies, assessments of renewable resources, emerging regulatory trends, measurement and verification of the effects of DSM programs, opportunities in the community and surrounding area, and extensive interaction with the public and elected officials inform this process. The System is unique in that one of the objectives of the IRP planning process is to meet the Kyoto Protocol to the United Nations' Framework Convention on Climate Change (the "Kyoto Protocol") for its operations, which include electrical generation, natural gas services, water and wastewater facilities, vehicle fleets, administrative buildings and other facilities. This is responsive not only to community concerns regarding climate change, but in anticipation of forthcoming renewable portfolio standards and carbon regulations. The current plan which includes energy efficiency and customer DSM (including incentives for solar thermal and natural gas appliance switching), the solar feed-in-tariff, and a long-term contract for the output of a 100 MW biomass power plant will allow the System to meet its Kyoto Protocol objective by 2014 and will furthermore be sufficient to allow the System meet any of the Renewable Portfolio Standards or Clean Portfolio Standards ("RPS") that have been proposed to date at the state or federal level.

Renewable Energy Strategy

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

The System conducted a carbon inventory in 2006 to establish a baseline rate of carbon emissions and to establish carbon targets in accordance with the Kyoto Protocol, providing a target date of 2014 for the System, rather than the 2012 United States target. Doing so may mitigate risks associated with potential renewable portfolio standards, fuel price volatility, and carbon constraints. The Kyoto Protocol targets a 7% reduction in total carbon emissions or equivalent carbon offsets by the United States by 2012. The System conducted the inventory pursuant to the preliminary guidelines for the voluntary registration of carbon offsets (referred to as the "1605(b) regulations") promulgated by the DOE, and has registered these values with the DOE. Voluntary carbon offset credits have been created pursuant to the 1605(b) regulations by the System's purchase of forest management rights for well field protection, re-powering of JRK Station Unit 7 into a combined cycle unit in 2001, replacing electric water heating with natural gas and other conservation programs, the new South Energy Center, landfill gas to energy projects, and the purchase of environmental attributes from PV systems, among other projects. None of these projects were undertaken strictly to offset carbon emissions but were justified on their need to cost-effectively meet other objectives. In March 2007, the City Commission reviewed the results of numerous planning studies and public workshops and the results of a series of market solicitations for additional resources. With the production tax credits for renewable energy, trends in interest rates, the value of depreciation tax credits, and the willingness for major financial interests to

assume risks for new technologies, the conventional assumption that "self build" options of conventional technologies are always the least cost was no longer the case for renewable energy. It was also apparent that biomass, which is relatively abundant in the area, had the potential to provide an economic source of power. In view of the community's concerns about climate change, indications of the intent of the state and federal governments to impose renewable portfolio standards and carbon constraints, and the volatility of natural gas prices, the System's staff was instructed to pursue options not involving fossil fuels as a primary fuel source and to pursue a potentially favorable purchased power proposal obtained as part of the solicitation. With the actions taken to date and the completion of the biomass project described below, the System will be able to meet the Kyoto Protocol's target GHG emission rate by 2014. See "FACTORS AFFECTING THE UTILITY INDUSTRY – Climate Change – *Global Climate Change*" herein.

Biomass Resources

The north central Florida region's primary source of renewable energy, other than solar, is from biomass. There is insufficient wind, hydro, geothermal, tidal or wave energy to make the development of these other renewable energy resources feasible with current technology. The availability of clean, woody, waste material to support the production of electricity at the DGS power plant site has been documented by studies either under contract to the System or under contract to various state agencies. These studies were performed by: The Institute of Food and Agricultural Sciences at the University of Florida; The Florida Department of Agriculture and Consumer Services, Division of Forestry and Environmental Resources; the University of Florida School of Forest Resources; the University of Florida Food and Resource Economics Department; and Bioresource Management. Inc. on behalf of the winning applicant to construct the biomass generating facility described below. At a May 3, 2010 hearing before the FPSC related to that agency's determination of need for the project, testimony was presented that there is more than enough suitable material to support a 100 MW biomass power plant at an economic price level for the life of the facility without adversely affecting existing users of this material (for example, in boilers at paper plants). There was further testimony presented that the available fuel supply for the project is 5.8 times the project's requirements.

Gainesville Renewable Energy Center

A two-step request for proposal process was employed to initially short list applicants and then make a final selection based on binding proposals. A proposal from American Renewables Inc., now known as GREC Holdings, Inc., was selected in 2008 and, after extensive negotiations, a PPA was executed and ratified by the City Commission in May 2009. GREC Holdings, Inc. will develop the chosen biomass project as GREC on property leased from the System at the DGS power plant site. Gainesville Renewable Energy Center, LLC, a subsidiary of GREC Holdings, Inc. ("GREC, LLC"), will own, operate, and maintain the facility, with the System dispatching the unit and taking 100% of the facility's output. GREC will be a 100 MW (net) bubbling fluidized bed boiler with a steam turbine unit equipped with air emission controls including dry sorbent injection, selective catalytic reduction of NO_x and fabric filters for particulate control. The type of fuel to be employed makes it unnecessary to control SO_2 or mercury. The intended fuel supply is primarily forest residuals left in the field after normal timber harvesting as well as materials from urban forestry and suitable sources of clean wood, and biomass such as pallets, and mill residues.

The System's PPA extends for 30 years from the date of first commercial operation and is structured as a "must-take" contract but with no fixed capacity charges. The PPA provides a contractual (guaranteed) heat rate as well as a guarantee of no more than 5.0% unavailability for four summer months and 10% annual average unavailability. In addition to the System having no financial obligation except for available energy, the contract provides liquidated damages for performance below these levels of reliability, a right of first offer to purchase the facility, and a unilateral option to purchase the facility at fair market value at the end of the contract. The pricing elements for energy under the PPA include three components: (a) a non-fuel energy charge; (b) a variable operating and maintenance charge; and (c) the fuel cost. The non-fuel energy charge is set in the PPA and will remain fixed over the term of the contract, and includes all costs to GREC, LLC of plant financing, construction, operation, equipment renewal and replacement, and maintenance over the life of the PPA. This charge is paid either for energy delivered or available energy that the System did not schedule.

It should be noted that the dispatch order of merit for GREC is before the System's existing coal unit. The variable operating and maintenance charge is set in the PPA and will escalate according to a consumer price index. It is expected that GREC, LLC will enter into a portfolio of contracts with must take and call options indexed to diesel fuel and labor costs. The PPA includes a gain sharing formula which provides financial incentives for GREC, LLC to obtain the lowest priced fuel possible and the System has the option of providing a portion of the fuel. On September 27, 2010, GREC, LLC announced that a long-term contract had been signed to provide 40% of the required fuel supply for the next ten years, derived strictly from clean urban wood waste. Some legislation and RPS standards either proposed to date or in effect treat biomass energy as carbon neutral, and the GREC PPA gives the System title to 100% of the environmental attributes associated with the facility, including renewable energy credits and carbon offset credits. The EPA's proposed CO_2 "Tailoring Rule" explicitly states that the agency's stance on biomass carbon neutrality has yet to be determined. See "FACTORS AFFECTING THE UTILITY INDUSTRY – Climate Change – *Federal Regulation*" for a discussion of the EPA's Tailoring Rule.

GREC is expected to create approximately 700 jobs in the region and, because most of the energy costs are fixed, the cost of power and firm capacity is likely to have substantial economic benefits for the System over the long-term.

Upon commercial operation of GREC, the System will have excess generating capacity. As a result, the System currently is seeking to sell a portion of its overall system capacity and energy for a term of up to five years, a portion of which would be renewable energy generated by GREC. The System is actively engaged in ongoing discussions with a few potentially interested Florida utilities for this sale, although no assurances can be given as to the amount of capacity and energy that ultimately may be sold, the duration of any such sale or the terms and conditions (including, in particular, price) upon which any such sales may be made.

Prior to the commencement of construction of GREC, the passing of three regulatory milestones was required and achieved. The first, a determination of need by the FPSC (a "Need Determination"), was met when an order granting GREC the Need Determination was issued to the co-applicants (the System and GREC, LLC) by FPSC on June 29, 2010. The second, a certification that the site meets land use, transportation, natural resource and environmental criteria approved by Florida's governor and cabinet (a "Site Certification"), was met when the Florida Department of Environmental Protection (the "FDEP") issued its recommendation of approval of the Site Certification, which was subsequently unanimously approved by the governor and cabinet on December 7, 2010. The third milestone was to receive a Prevention of Significant Deterioration air construction permit (a "PSD permit") by FDEP, who issued its recommendation for approval of the PSD subject to certain conditions that are acceptable to the applicant (GREC, LLC) on December 28, 2010. Interveners appealed the Need Determination to the Florida Supreme Court and requested public hearings on the Site Certification and PSD permit. The public hearings were completed on August 26, 2010 and September 23, 2010, for the Site Certification and PSD, respectively and the hearing officer's recommended orders in favor of both were issued on November 2, 2010 and December 7, 2010, respectively. In February 2011, prior to the Florida Supreme Court opening the interveners appeal of the Need Determination order, the interveners filed notices to dismiss all of their appeals after reaching a settlement agreement with GREC, LLC. The System was not a party to that agreement. Construction of GREC commenced in March 2011 and is progressing as planned. The plant is scheduled to begin commercial operation no later than December 31, 2013.

See "LITIGATION" herein for a discussion of a lawsuit that has been filed against the City questioning the validity of the System's PPA with GREC, LLC.

Solar Feed-In-Tariff

The System became the first utility in the nation to adopt a European-style solar feed-in-tariff ("FIT") in March 2009. Under this tariff, the System agrees to buy 100% of the electricity produced by a PV solar system, which is delivered directly to the System's distribution system. What distinguishes a European-style

FIT from any other FIT are the following three factors: (a) the price paid per kWh is designed to allow the owner/operator to earn a profit (the System applied a 5% internal rate of return after taxes to a reference system design); (b) the tariff is fixed over a sufficient period of time by a contract that is designed to promote investment (the System's Tariff provides a twenty-year fixed price purchase power agreement); and (c) the tariff differentiates between different types of projects in terms of the price paid (in the case of the System, there are different tariff rates for building/pavement mount and green field ground mount systems). FIT's can be applied to any form of renewable energy, but the System has chosen to focus on solar due to its widespread availability in the service area. The System acquires all the environmental attributes of the solar energy purchased under the FIT, such as renewable energy credits and carbon offsets. The benefits of the FIT include the creation of local investment opportunities, new jobs, and the potential attraction of solar manufacturing to the region. In order to manage the effect of the FIT on the System's purchased power cost, a stop loss criteria of no more than 4 MW per year of solar capacity was instituted. As of March 1, 2012, over 11.3 MW of solar PV capacity has been installed pursuant to the System's FIT, rebate, and net metering programs.

THE NATURAL GAS SYSTEM

The natural gas system was acquired in January 1990 and since then has met the System's customers' preferences for natural gas as a cooking and heating fuel as well as provided a cost-effective DSM program alternative. The natural gas system consists primarily of underground gas distribution and service lines, six points of delivery or interconnections with FGT, and metering and measuring equipment. Liquid propane ("LP") systems are utilized for new developments that are beyond the existing natural gas distribution network. As the natural gas system is expanded, the LP systems and customer appliances are converted from LP to natural gas. Most of these LP systems are located in areas served by Clay for electric service.

Service Area

The natural gas system services customers within the City limits and in the surrounding unincorporated area. The natural gas system covers approximately 115 square miles and provides service to 29% of the County's population. In addition, the natural gas system serves customers within the city limits of Alachua and High Springs. The franchise agreement with Alachua expired on November 10, 2007 and Alachua currently has an option to purchase the distribution system in Alachua from the City. The Alachua City Commission has directed their staff to study the feasibility of buying the distribution facilities within Alachua's corporate limits from the System. The terms and conditions of the expired franchise remain in effect until such time as a new franchise is negotiated or until a satisfactory buy-out agreement is reached. Service has continued uninterrupted and the customer base continues to expand in that community.

Customers

The natural gas system has experienced a slight decrease in customers in recent years as population growth, the most significant factor in customer growth, has slowed under weak economic conditions. The following tabulation shows the average number of natural gas customers for the fiscal years ended September 30, 2007 through 2011. Over 90% of new single family developments in the Gainesville urban area have been connected to the System over this period.

	Fiscal Years ended September 30,				
	2007	**2008**	**2009**	**2010**	**2011**
Customers (Average).....	33,125	33,776	33,451	33,239	33,207

The composition of the System's natural gas customers is predominantly residential. Commercial and industrial customers comprised approximately 4.8% of the 33,207 average customers served in the fiscal year ended September 30, 2011.

Natural Gas Supply

Natural gas is procured and delivered in much the same manner as for the System's electric generation operations. TEA purchases commodity, handles pipeline capacity entitlements, and executes physical and financial hedging strategies on behalf of the System as it does for electric operations. The non-coincident occurrences of electric system and gas retail distribution ("LDC") system peak demands provide opportunities to switch electric fuels to free up pipeline capacity for the LDC and/or manage pipeline entitlements to enhance the reliability and cost performance of the gas system. The average cost of gas delivered to the System for the natural gas distribution system in the fiscal year ended September 30, 2011 was $5.95/MMBtu. Fuel costs for the natural gas system differ from those of the electric system only in that the gas system has no fuel switching capability and must carry sufficient pipeline reserve capacity to meet peak demands, resulting in higher delivered fuel costs.

Natural Gas Distribution

The natural gas system consists of 741 miles of gas distribution mains. The predominant and now standard pipe materials in service are polyethylene (533 miles) and coated steel (190 miles). All coated steel pipelines are cathodically protected using magnesium anodes. The remaining 18 miles of the distribution system are comprised of uncoated steel, cast iron, and black plastic. The replacement of all three of these pipeline materials has been programmed within the immediate planning/construction horizon and in advance of regulatory requirements.

Manufactured Gas Plant

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

The remediation costs were estimated at $25.9 million as of October 1, 2011. The remaining cost is included in the natural gas capital improvement program. These costs are subject to increases related to rising fuel prices, the discovery of additional soil or groundwater impacts, or changes in cleanup standards. In the fiscal year ended September 30, 2003, the System implemented a cost recovery factor to fund the remediation. This factor has been applied to retail customers' bills since that time and is subject to change depending on future cleanup costs.

Capital Improvement Program

As more fully discussed in the first paragraph under "ADDITIONAL FINANCING REQUIREMENTS" herein, the numbers shown below reflect the six-year capital improvement program expected to be submitted by Management for approval by the City Commission in connection with its approval of the System's annual budget for the fiscal year ending September 30, 2013, except that the numbers shown for the fiscal year ending September 30, 2012 reflect the capital improvement program approved by the City Commission for such fiscal year in September 2011 in connection with its approval of the System's annual budget for such fiscal year, updated to reflect (a) actual natural gas capital improvement program expenditures

to date and (b) Management's estimate of natural gas capital improvement program expenditures to be incurred through the remainder of the current fiscal year. Management's projected six-year natural gas capital improvement program requires a total of approximately $34,334,000 in capital expenditures between the fiscal years ending September 30, 2012 through 2017, inclusive. A breakdown of the categories included in the six-year capital improvement program is outlined below. No assurances can be given as to the amount of expenditures that will be included in the new capital improvement program ultimately approved by the City Commission for the fiscal years ending September 30, 2013 through 2017 in connection with its approval of the System's annual budget for the fiscal year ending September 30, 2013.

Gas Capital Improvement Program

	Fiscal Years ending September 30,						
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
	(dollars in thousands)						
Distribution Mains	$871	$1,179	$1,344	$1,500	$1,814	$2,199	$ 8,907
Meters, Services and Regulators	2,037	2,344	2,259	1,920	1,727	1,745	12,032
Miscellaneous and Contingency	7,611	2,728	725	750	777	804	13,395
Total	$10,519	$6,251	$4,328	$4,170	$4,318	$4,748	$34,334

THE WATER SYSTEM

The water system currently includes 1,104 miles of water transmission and distribution lines throughout the Gainesville urban area, sixteen water supply wells located in a protected well field, and one treatment plant (the "Murphree Plant") possessing a rated peak day capacity of 54 Mgd. Treatment processes include lime-softening, recarbonation, filtration, chlorination and fluoridation. The Murphree Plant's design allows for expansion to at least 60 Mgd of capacity at the plant site without interruption of treatment or service. The water system also includes a total of 19.5 million gallons of water storage capacity, comprised of pumped ground storage and elevated tanks.

Service Area

The water system serves customers within the City limits and in the immediate surrounding unincorporated area. Comprehensive land use plans for the Gainesville urban area mandate connection of new construction to the water system for all but very low density residential developments. Much of the water system's growth is in areas served by Clay for electricity. The area presently served includes approximately 118 square miles and approximately 72% of the County's total population. The University of Florida and a small residential development in Alachua are the only wholesale sales customers. All other customers are served under either the water system's residential inverted block rate or the general service category.

Customers

The System has experienced a slight decrease in customers in recent years as population growth, the most significant factor in customer growth, has slowed under weak economic conditions. The System has extension policies for providing water supply services to new developments with connection fees, appropriately designed to assure that new customers do not impose rate pressure on existing customers. The following tabulation shows the average number of water customers for the fiscal years ended September 30, 2007 through 2011.

	Fiscal Years ended September 30,				
	2007	**2008**	**2009**	**2010**	**2011**
Customers (Average)	67,774	69,779	69,496	69,357	68,952

Most of the System's individual water customers are residential. Commercial and industrial customers comprised approximately 8.6% of the 68,952 average customers in the fiscal year ended September 30, 2011, and 63% of all water sales revenues were from residential customers.

Water Treatment and Supply

Gainesville's water supply is groundwater obtained from a well field tapping into a confined portion of the Floridan aquifer. Groundwater is treated at the Murphree Plant prior to distribution and eventual use. Water treatment and supply facilities are planned based on the need to provide reserve capacity under extreme conditions of extended drought, with attendant maximum demands for water and lowered aquifer water levels. Under these design conditions, current water treatment and supply facilities are adequate through at least 2030. No limitation of supply imposed by the aquifer's sustained yield has been identified by groundwater studies to date.

Water treatment at the Murphree Plant consists of softening to protect the distribution system and improve customer satisfaction, fluoridation for improved cavity protection in young children, filtration, and chlorination for protection from microbial contamination. Specific treatment processes include sulfide oxidation, lime softening, pH stabilization, filtration, fluoridation, and chlorination. Treated water is collected in a clearwell for transfer to ground storage reservoirs prior to distribution. The filter system has been upgraded with the addition of two additional filter cells to provide additional treatment capacity.

Raw water requirements for the water system are supplied by sixteen deep wells drilled into the Floridan aquifer. Vertical turbine pumps raise the water and deliver it to the Murphree Plant for treatment. In 2000, the System, along with the local water management districts, purchased a conservation easement over 7,000 acres of silvicultural property immediately to the north and northwest of the Murphree Plant. The conservation easement provides protection to the System's sixteen existing wells and will accommodate the construction of additional wells. Existing and future wells within the conservation easement are anticipated to yield a minimum of 60 Mgd of water supply to match the long-term future treatment capacity of the Murphree Plant site.

The System's groundwater withdrawals are permitted through the St. Johns River Water Management District ("SJRWMD") and Suwannee River Water Management District ("SRWMD"). The SJRWMD and SRWMD are currently engaged in developing a water supply plan through 2030. The intent of the water supply planning process is to ensure adequate water supply on a long-term basis while protecting natural resources. Computer groundwater modeling performed to date by the water management districts indicates that there may be future constraints on groundwater supplies. As part of the water supply planning effort, the water management districts are developing refined groundwater models to better define potential constraints. The System is engaged in the development of these efforts and is confident that it can meet its future water supply needs through a combination of wellfield development, increased water conservation efforts and increased use of reclaimed water. The System's existing consumptive use permit expires in August 2014. The System will be beginning the process of renewing its permit in the near future and will be applying for a 20-year consumptive use permit. This permit renewal, if granted, is expected to secure the System's water supply through 2034.

The Cabot/Koppers Superfund site, which was declared a Superfund site in 1983, is located approximately 2 miles to the southwest of the Murphree Plant. The site is contaminated from past wood treating and pine tar processing operations. The presence of protective geologic confining layers over the aquifer has greatly impeded the migration of contamination. However, measures are needed to contain the contamination and clean up the site to ensure that Gainesville's water supply is protected. Although the System is not a potentially responsible party ("PRP") for this site, it has been and intends to continue being highly proactive in protecting Gainesville's water supply. The System has actively participated as a stakeholder working with the EPA and the PRPs for the site (Beazer East, Inc. and Cabot Corporation) to develop remediation plans. The System has assembled a team of experts in the groundwater contamination field to assist and advise the System, and to assist the System in interacting with the EPA and the PRPs to ensure that the appropriate steps are taken. The System regularly tests both the raw and finished water at the well field and there has been no trace of contamination. Based on the System's request, an extensive Floridan aquifer groundwater monitoring network has been constructed at the Koppers portion of the site and is routinely monitored.

In February 2011, the EPA issued a Record of Decision ("ROD") for the Koppers portion of the site which includes a number of technologies to manage contamination at the site. The ROD includes in situ solidification of contamination using two different technologies: (1) construction of a slurry wall around the most contaminated areas and (2) pumping and treatment of contaminated groundwater from the Floridan aquifer below the site. The System and its expert consultants are continuing to be highly engaged in the design and implementation of the cleanup site.

The remedy that has been employed on the Cabot portion of the site has been considered satisfactory. However, at the System's urging, additional investigations are underway at the Cabot property to further investigate potential contamination. The System and its consultants will continue to be highly active in these investigations.

Transmission and Distribution

The water transmission system consists primarily of cast and ductile iron water mains from 10 to 36 inches in diameter providing a hydraulically looped system. The Murphree Plant high service pumps, and the Santa Fe Repump station and two elevated storage tanks provide water flow and pressure stabilization throughout the service area. The water distribution system consists primarily of cast iron, ductile iron, and polyvinyl chloride ("PVC") water mains from 2 to 8 inches in diameter and covers a service area of approximately 118 square miles. The System not only installs new water distribution system additions, but also approves plans for and inspects private developers' water distribution systems which ultimately are deeded over to the System to become an integral part of the System's overall distribution system. The System monitors pressure in several locations throughout the distribution system to ensure that adequate pressures are maintained. In addition, the System utilizes a computer model to assess future conditions and to ensure that system improvements are constructed to ensure adequate pressures in the future.

Capital Improvement Program

As more fully discussed in the first paragraph under "ADDITIONAL FINANCING REQUIREMENTS" herein, the numbers shown below reflect the six-year capital improvement program expected to be submitted by Management for approval by the City Commission in connection with its approval of the System's annual budget for the fiscal year ending September 30, 2013, except that the numbers shown for the fiscal year ending September 30, 2012 reflect the capital improvement program approved by the City Commission for such fiscal year in September 2011 in connection with its approval of the System's annual budget for such fiscal year, updated to reflect (a) actual water capital improvement program expenditures to date and (b) Management's estimate of water capital improvement program expenditures to be incurred through the remainder of the current fiscal year. Management's projected six-year water capital improvement program requires a total of approximately $63,475,000 in capital expenditures between the fiscal years ending September 30, 2012 through 2017, inclusive. A breakdown of the categories included in the six-year capital improvement program is outlined below. No assurances can be given as to the amount of expenditures that will be included in the new capital improvement program ultimately approved by the City Commission for the fiscal years ending September 30, 2013 through 2017 in connection with its approval of the System's annual budget for the fiscal year ending September 30, 2013.

Water Capital Improvement Program

	Fiscal Years ending September 30,						
	2012	2013	2014	2015	2016	2017	Total
	(dollars in thousands)						
Plant Improvements	$ 7,903	$ 5,101	$5,413	$6,805	$3,602	$4,303	$33,127
Transmission and Distribution	3,258	4,409	2,964	2,738	3,491	2,768	19,628
Miscellaneous and Contingency	2,727	2,209	1,326	1,415	1,506	1,537	10,720

Total.....	$13,888	$11,719	$9,703	$10,958	$8,599	$8,608	$63,475

THE WASTEWATER SYSTEM

The wastewater system serves most of the Gainesville urban area and consists of 608 miles of gravity sewer collection system, 166 pump stations with 136 miles of associated force main, and two major wastewater treatment plants with a combined treatment capacity of 22.4 Mgd AADF. While effluent disposal is mostly accomplished through deep well injection and surface water discharge, the System is aggressively expanding its reuse systems at both of its treatment plants in order to conserve groundwater resources and provide additional effluent disposal capacity expansion.

Service Area

The wastewater system service area is essentially the same as the water system service area. Similar to the water system, extension policies for providing wastewater facilities and service to new customers are in place with connection fees appropriately designed to protect existing customers from rate pressure that would result from adding new customers. Comprehensive land use plans for the Gainesville urban area mandate connection of new construction to the wastewater system for all but very low density residential developments. Much of the wastewater system's growth is in areas served by Clay for electricity. The wastewater system does not serve the majority of the University of Florida campus.

Customers

The System has experienced a slight decrease in customers in recent years as population growth, the most significant factor in customer growth, has slowed under weak economic conditions. The following tabulation shows the average number of wastewater customers, including reclaimed water customers, for the fiscal years ended September 30, 2007 through 2011.

	Fiscal Years ended September 30,				
	2007	**2008**	**2009**	**2010**	**2011**
Customers (Average).....	60,205	61,552	62,071	61,681	61,370

The composition of the System's wastewater customers is predominantly residential. Commercial and industrial customers comprised approximately 6.8% of the 61,370 average customers in the fiscal year ended September 30, 2011, and residential customers were the source of 70.3% of all the wastewater system's revenues in the fiscal year ended September 30, 2011.

In 2011, the System executed an agreement with the City of Waldo, Florida ("Waldo") to provide Waldo with wastewater service on a wholesale basis. Waldo currently provides wastewater service to approximately 850 of its residents. However, Waldo's existing water reclamation facility cannot meet required environmental permit limits. Waldo will construct a lift station and force main which will collect Waldo's raw wastewater and discharge it to one of the System's existing lift stations. Waldo has secured the required funding for the project. The facilities will provide adequate capacity for Waldo to more than double its service population with future growth, which will in turn result in more revenue opportunities for the System. The project is under design at this time and construction is expected to be completed by 2013.

Treatment

The wastewater system currently includes two major wastewater treatment plants, the Main Street Water Reclamation Facility (the "Main Street Plant") and the Kanapaha Water Reclamation Facility (the "Kanapaha Plant"). Currently, these facilities have a combined capacity of 22.4 Mgd AADF, which is sufficient capacity to meet projected demands through 2032. Although these facilities receive flow from adjacent but distinct collection areas, a pump station that allows wastewater to be routed to either the Main Street Plant or Kanapaha Plant allows treatment capacity at both facilities to be fully utilized.

The Main Street Plant has a treatment capacity of 7.5 Mgd AADF and was upgraded in 1992 to include advanced tertiary activated sludge treatment process units. The new facilities included effluent filtration, gravity belt sludge thickeners, and major improvements to plant headworks to control odors and improve plant reliability. Existing sludge treatment facilities are adequate to meet current federal sludge regulations. Effluent from the Main Street Plant is discharged to the Sweetwater Branch and must meet requirements of the FDEP for discharge to Class III surface waters. The Main Street Plant is in compliance with its National Pollutant Discharge Elimination System ("NPDES") permit.

In addition, the Main Street Plant includes a reclaimed water pumping station and distribution system. The reclaimed water distribution system currently includes a pipeline, which provides reclaimed water to the South Energy Center where it is then used for process cooling and irrigation. See "THE ELECTRIC SYSTEM – Energy Supply System – *Generation Stations – South Energy Center*" herein. This line also provides reclaimed water for pond augmentation and future irrigation at the MGP remediation site (see "THE NATURAL GAS SYSTEM – Manufactured Gas Plant" herein). The line will also provide reclaimed water to the City's future bus wash facility and provide for other irrigation and cooling uses that develop near the pipeline corridor.

Total Maximum Daily Load ("TMDL") regulations were adopted by the FDEP in January 2006 and require reductions in total nitrogen discharges from the Main Street Plant and other nitrogen sources. Florida's TMDL regulations allow the FDEP to negotiate basin management plans involving all of the parties affecting the water bodies. GRU is planning to achieve its TMDL limits by implementing a cooperative environmental restoration project known as the Paynes Prairie Sheetflow Restoration project. The combination of the project and the reclaimed water distribution (described above) will allow the System to beneficially reuse 100% of the Main Street Plant effluent. The Main Street Plant NPDES permit requires the implementation of the project by 2019 to comply with the TMDL requirements. The project design is complete and it is anticipated that construction will begin in the summer of 2012, with project completion expected in 2014. The EPA promulgated the Numeric Nutrient Criteria Inland Rule in 2010. The rule is scheduled to go into effect July 6, 2012, but, on May 17, 2012, the EPA proposed to extend the effective date to October 6, 2012. The EPA's deadline for accepting comments on this proposal was June 18, 2012. The FDEP has developed its own numeric nutrient criteria rule which it proposes to enforce in lieu of the EPA rule. The EPA is currently reviewing the FDEP rule. The System has been actively engaged with both the EPA and the State to ensure that the project will meet the requirements of either the FDEP or the EPA rule. Either rule will require the establishment of site specific criteria. The System is currently working with the FDEP to perform the required studies to meet either rule.

The Kanapaha Plant is permitted to discharge into a potable zone of the Floridan aquifer. Construction was completed in June 2004 to provide a capacity of 14.9 Mgd AADF. The plant has two distinct treatment processes incorporated into its design: a modified Ludzack-Ettinger Treatment process and a carrousel advanced wastewater treatment activated sludge system. The treatment process concludes with filtration and chlorination prior to discharge into aquifer recharge wells and a reclaimed water distribution system. The System consistently meets the required primary and secondary drinking water standards for discharge to recharge wells as set forth in its NPDES permit.

The Southwest Reuse Project distributes reclaimed water from the Kanapaha Plant to commercial and residential customers for landscape irrigation and golf course irrigation. The System also has numerous "aesthetic water features," which provide a public amenity and wildlife habitat in addition to recharging the aquifer. All reclaimed water not reused directly recharges the Floridan aquifer via deep recharge wells that discharge to a depth of 1,000 feet.

The System delivered approximately 2.4 Mgd AADF of reclaimed water in the fiscal year ended September 30, 2011. The regional water management districts encourage the use of reclaimed water to reduce demands on groundwater. The FDEP encourages reuse as an environmentally appropriate means of effluent disposal.

Wastewater Collection

The wastewater gravity collection system consists of 14,747 manholes with 610 miles of gravity sewer, 50% of which consists of vitrified clay pipe. New facilities under 12 inches in diameter are primarily constructed of PVC pipe, and new facilities 12 inches in diameter and over are primarily constructed of ductile iron pipe. The System maintains three television sealing and inspection units which are routinely employed in inspecting new additions to the System to ensure they meet GRU specifications and in inspecting older lines. The television inspections allow the System to identify segments of piping which have high infiltration and inflow or structural concerns. These pipes are restored through a process known as slip-lining, in which a cured in place fiberglass sleeve is installed in the pipe. The System performs slip-lining using its own crews. In addition, the System routinely utilizes contractors to perform slip-lining of longer segments of piping. As a result, infiltration and inflow to the System are not excessive.

The force main system which routes flow to the treatment plant consists of 166 pump stations and over 137 miles of pipe. Existing lines under 12 inches in diameter are generally constructed of PVC pipe and existing lines 12 inches in diameter and over are generally constructed of ductile iron pipe. For new construction, force mains 16 inches and smaller are generally constructed of PVC with larger force mains constructed of ductile iron or high density polyethylene. The System has instituted a preventative maintenance program to assure long life and efficiency at all pumping stations.

Capital Improvement Program

As more fully discussed in the first paragraph under "ADDITIONAL FINANCING REQUIREMENTS" herein, the numbers shown below reflect the six-year capital improvement program expected to be submitted by Management for approval by the City Commission in connection with its approval of the System's annual budget for the fiscal year ending September 30, 2013, except that the numbers shown for the fiscal year ending September 30, 2012 reflect the capital improvement program approved by the City Commission for such fiscal year in September 2011 in connection with its approval of the System's annual budget for such fiscal year, updated to reflect (a) actual wastewater capital improvement program expenditures to date and (b) Management's estimate of wastewater capital improvement program expenditures to be incurred through the remainder of the current fiscal year. Management's projected six-year wastewater capital improvement program requires a total of approximately $82,413,000 in capital expenditures between the fiscal years ending September 30, 2012 through 2017, inclusive. A breakdown of the categories included in the six-year capital improvement program is outlined below. No assurances can be given as to the amount of expenditures that will be included in the new capital improvement program ultimately approved by the City Commission for the fiscal years ending September 30, 2013 through 2017 in connection with its approval of the System's annual budget for the fiscal year ending September 30, 2013.

Wastewater Capital Improvement Program

	Fiscal Years ending September 30,						
	2012	2013	2014	2015	2016	2017	Total
	(dollars in thousands)						
Plant Improvements	$ 2,314	$ 4,788	$ 5,595	$ 6,707	$ 2,573	$ 178	$22,155
Reclaimed Water	1,985	16,024	2,973	1,002	893	2,528	25,404
Collection System	5,632	3,041	3,424	2,053	2,286	2,917	19,353
Miscellaneous and Contingency	3,597	3,317	2,027	2,153	2,186	2,221	15,501
Total	$13,528	$27,169	$14,019	$11,915	$7,938	$7,844	$82,413

THE TELECOMMUNICATIONS SYSTEM

The System has been providing retail telecommunications services since 1995 under the brand "GRUCom." Services provided by GRUCom include data transport services to other local businesses, government entities, local and inter-exchange carriers, and Internet service providers. Additional services

provided by GRUCom include tower space leases for wireless personal communications (cellular telephone) providers, public safety radio services for all the major public safety agencies operating in the County and collocation services in the System's central office. GRUCom is licensed by the FPSC as an Alternative Access Vendor and as an Alternative Local Exchange Carrier.

Service Area

GRUCom provides telecommunications and related services to customers located primarily in the Gainesville urban area, but it provides public safety radio services throughout the entire County through interlocal agreements. GRUCom holds telecommunications licenses that allow it to provide telecommunication services throughout the State. GRUCom operates network connections to interface with all major Interexchange Carriers (IXC) who maintain facilities in the County, as well as interconnections with both of the County's two incumbent local exchange carriers.

Services Provided

The services provided by GRUCom fall primarily into the following five major product lines: telecommunications services; Internet access services; communication tower antenna space leasing; public safety radio services; and collocation services.

The telecommunications services provided by GRUCom are primarily Private Line and Special Access transport circuits (both described below) delivered in whole, or in part, on the GRUCom fiber optic network. These high bandwidth circuits are capable of carrying voice, data or video communications. Private Line circuits are point-to-point, unswitched channels connecting two or more customer locations with a dedicated communication path. Special Access circuits are also unswitched and provide a dedicated communication path, but these circuits connect a customer location to the Point of Presence of another telecommunications company. GRUCom transport services are provided at various levels ranging from 1.5 megabits per second ("Mbps") to 1 gigabit per second ("Gbps"). Part of GRUCom's business strategy is to use unbundled network elements from the incumbent local exchange carrier, AT&T, in anticipation of fiber extensions to specific service locations. In 2003, GRUCom installed a software-based telecommunications switch that is capable of delivering local exchange telecommunications services. The telecommunications switch is used only to provide telephone lines required for dial-up Internet access, which are inward call only lines.

GRUCom also uses the fiber optic network to provide high speed, dedicated Internet access services. Business connections to the Internet are offered at access speeds ranging from 2 Mbps up to 1 Gbps. Dedicated Internet access is also offered to residential customers in participating multi-dwelling complexes at speeds up to 50 Mbps. Additionally, GRUCom offers dial-up and ISDN Internet access services under the domain names GRU.Net and Gator.Net. The dial-up access speeds available are 56 kilobits per second ("Kbps") and 128 Kbps.

GRUCom operates eleven communications towers in the Gainesville area and leases antenna space on these towers as well as on two of the System's water towers, for a total of thirteen antenna attachment sites. Two of the five antenna sites for the countywide public safety radio system are also located on these communications towers. Wireless communications service providers lease space on the towers and, in most cases, also purchase fiber transport services from GRUCom to receive and deliver traffic at the towers. GRUCom provides transport services that carry a substantial portion of cell phone traffic in the Gainesville urban area. The GRUCom public safety radio system began operation in 2000. These services are provided over Federal Communications Commission ("FCC")-licensed 800 MHz frequencies, utilizing a trunked radio system that is compliant with the current frequency allocations enacted by the FCC in 2010 to accommodate personal communication services ("PCS") providers. The trunked radio system meets current industry standards for interagency operability. The trunked radio system consists of 22 trunked voice frequencies. Antenna sites are linked to the network controller and various dispatch centers utilizing GRUCom's transport services.

Customers

GRUCom's customer base is growing as the fiber optic network is expanded and new product offerings are introduced. Customer types vary for each GRUCom business activity.

GRUCom's fiber transport customers include other land-line telecommunications companies, cellular telecommunications companies, private commercial and industrial businesses, federal, state and local governmental agencies, public and private schools, public libraries, Santa Fe College, the University of Florida, the Shands Healthcare System and the University of Florida Health Science Center. As of September 30, 2011, GRUCom had a total of 1,165 transport circuits in service, including 31 new carrier Ethernet circuits.

Dedicated Internet access services are provided to other Internet service providers, local businesses and organizations, and participating multi-dwelling complexes. Dial-up Internet access services are provided to the general public in the local calling area. As of September 30, 2011, GRUCom had 6,641 Internet access customer connections, while dial-up customers totaled 557. GRUCom tower space leasing services are used primarily by wireless providers, which include cellular telephone and PCS companies. As of September 30, 2011, GRUCom had executed 45 tower leases, for space on twelve of its thirteen antenna attachment sites with ten different lessees, including national and regional cellular service providers.

Public safety radio system customers consist solely of government entities due to restrictions on the use of the frequencies allocated to the System under licenses issued by the FCC. The primary radio system users include: the System, the Gainesville Police Department (GPD), the Gainesville Fire Rescue Department (GFRD), the Gainesville Regional Transit System (RTS), the City's Public Works Department, the University of Florida Police Department (UPD), the Santa Fe College Police Department, the City of Alachua Police Department (APD), the City of High Springs Police Department, the County's Sheriff's Office, the County's Fire Rescue Operations and the County's Public Works Departments. With a major upgrade to the trunked radio system in the 2012 fiscal year, these users have entered into a service agreement through 2020, with minimum commitments for the number of users and monthly fees per user established for voice and dispatch subscriber units. The public safety radio system is operated by GRUCom on an enterprise basis, but an interagency Radio Management Board has been established to govern user protocols, monitor system service levels, and review system changes that could increase rates. The public safety radio system was designed to accommodate additional participants, and the contract with each participating agency provides incentives to allow the system to expand. Currently, the public safety radio system is in full operation with 2,732 subscriber units in service.

Description of Facilities

As of September 30, 2011, GRUCom had 389 miles of fiber optic cable installed throughout Gainesville and the County. The fiber strand count included in the cable depends on service requirements for the particular area and ranges from 12 to 144 strands. The fiber is installed in a ringed topology consisting of a backbone loop and several subtending rings. Service is provisioned on the network in two ways: for carrier grade services, GRUCom has deployed optical equipment manufactured by Ciena (primarily) using the Synchronous Optical Network standard protocol; and for commercial services, GRUCom uses Ethernet switches manufactured by Cisco on the network. GRUCom is in the process of migrating from the Cisco Systems equipment to equipment manufactured by Telco Systems. The Telco Systems equipment will enable GRUCom to provide multi-protocol line switching (MPLS) functionality and reduce network infrastructure equipment complexity. The Ethernet protocol provides GRUCom with increased flexibility for managing bandwidth delivered to the customer. The maximum transport speed currently utilized in the fiber optic network is 10 Gbps, which is enough bandwidth to deliver more than 125,000 simultaneous phone calls (as an illustration). Bandwidth on this network is a function of the electronic equipment utilized and, with technologies such as dense wave division multiplexing, expansion of the transport capability of the network is virtually unlimited. To exchange network traffic, GRUCom also is interconnected with other major telecommunications companies serving the Gainesville area.

The public radio system employs a Motorola 800 MHz simulcast system configured with six transmit and receive tower sites including 22 simulcast voice and two additional mutual aid channels.

GRUCom maintains a point-of-presence at the Telx Group, Inc. ("Telx") collocation and interconnection facility located at 56 Marietta Street in Atlanta, Georgia (the "Telx Facility"). The Telx Facility provides access to hundreds of leading domestic and international carriers as well as physical connection points to the world's telecommunications networks and internet backbones. Atlanta, Georgia is a major fiber interconnection point from Florida to New York and the Telx Facility sits on top of most of the fiber. GRUCom maintains multiple ultra-high bandwidth backbone transmission interconnections on diverse routes between Gainesville and the Telx Facility to provide highly reliable Internet access to customers in Gainesville. GRUCom is also a member of the Telx Internet Exchange ("TIE"), a separate peering point in the Telx Facility. The TIE allows GRUCom to quickly and easily exchange internet protocol ("IP") traffic directly with over 60 of the world's largest Internet Service Providers ("ISPs"), Content Providers, Gaming Providers and Enterprises, including companies such as Google, McAfee Akami, Hurricane Electric (a major Internet service), Sprint and several other Internet service providers. TIE participants can route IP traffic efficiently, providing faster, more reliable and lower-latency internet or voice over internet protocol (VoIP) access to their customers, by bypassing intermediate router points so that Internet traffic may have direct access to destination networks.

Capital Improvement Program

As more fully discussed in the first paragraph under "ADDITIONAL FINANCING REQUIREMENTS" herein, the numbers shown below reflect the six-year capital improvement program expected to be submitted by Management for approval by the City Commission in connection with its approval of the System's annual budget for the fiscal year ending September 30, 2013, except that the numbers shown for the fiscal year ending September 30, 2012 reflect the capital improvement program approved by the City Commission for such fiscal year in September 2011 in connection with its approval of the System's annual budget for such fiscal year, updated to reflect (a) actual GRUCom capital improvement program expenditures to date and (b) Management's estimate of GRUCom capital improvement program expenditures to be incurred through the remainder of the current fiscal year. Management's projected six-year GRUCom capital improvement program requires a total of approximately $46,741,000 in capital expenditures between the fiscal years ending September 30, 2012 through 2017, inclusive. A breakdown of the categories included in the six-year capital improvement program is outlined below. No assurances can be given as to the amount of expenditures that will be included in the new capital improvement program ultimately approved by the City Commission for the fiscal years ending September 30, 2013 through 2017 in connection with its approval of the System's annual budget for the fiscal year ending September 30, 2013.

GRUCom Capital Improvement Program

	Fiscal Years ending September 30,						
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
	(dollars in thousands)						
Fiber Optic Expansion	$11,610	$9,040	$5,861	$5,205	$5,399	$5,600	$42,715
General Plant	551	394	375	390	404	419	2,533
Miscellaneous and Contingency	1,000	173	76	78	81	85	1,493
Total	$13,161	$9,607	$6,312	$5,673	$5,884	$6,104	$46,741

RATES

General

In general, the rates of municipal electric utilities in Florida are established by the governing bodies of such utilities. Under Chapter 366, Florida Statutes, the FPSC has jurisdiction over municipal electric utilities only to prescribe uniform systems and classifications of accounts, to require electric power conservation and

reliability, to regulate electric impact fees, to establish rules and regulations regarding cogeneration, to approve territorial agreements, to resolve territorial disputes, to prescribe rate structures, to prescribe and enforce safety standards for transmission and distribution facilities and to prescribe and require the periodic filing of reports and other data. Pursuant to the rules of the FPSC, rate structure is defined as ". . . the classification system used in justifying different rates and, more specifically . . . the rate relationship between various customer classes, as well as the rate relationship between members of a customer class." However, the FPSC and the Florida Supreme Court have determined that, except as to rate structure, the FPSC does not have jurisdiction over municipal electric utility rates. The FPSC has not asserted any jurisdiction over the rates or rate structure of the System. The FPSC also has the authority to determine the need for certain new transmission and generation facilities.

The governing bodies of municipal water, wastewater and natural gas utilities in Florida have exclusive jurisdiction over the setting of rates for said systems, subject only to certain statutory restrictions upon water and wastewater rates outside the municipal corporate limits.

Although the rates of the System are not subject to federal regulation, the National Energy Act of 1978 contains provisions which required the City to hold public proceedings to consider and determine the appropriateness of adopting certain enumerated federal standards in connection with the establishment of its retail electric rates. Such proceedings have been completed and the results currently are reflected in the System's policies and electric rate structure.

The City Commission's sole authority to set the level of the rates and charges of the System is constrained by the Resolution to set rates that comply with the rate covenant in the Resolution. See "SECURITY FOR THE BONDS – Rate Covenant" herein. Future projected revenue requirement changes provided in this Official Statement have been developed by the System's staff based on the most recent forecasts and operation projections available.

Electric System

Each of the System's various rates for electric service consists of a "base rate" component and a "fuel and purchased power rate" component. The base rates are evaluated annually and adjusted as required to fund projected revenue requirements for each fiscal year. The fuel and purchased power adjustment clause provides for increases or decreases in the charge for electric energy to cover increases or decreases in the cost of fuel and purchased power to the extent such cost varies from a predetermined base of 6.5 mills per kWh. The current fuel and purchased power adjustment formula is a one-month forward-looking projected formula which is based on a true-up of the prior month's actual fuel costs valued on a last-in, first-out ("LIFO") accounting basis, including purchased power, and the upcoming month's estimates of fuel and purchased power costs.

The table below presents electric system base rate revenue, fuel and purchased power adjustment revenue and total bill changes since 2007 and Management's most recent projections of future base rate revenue, fuel and purchased power adjustment revenue and total bill changes. The percentage changes shown do not represent the percentage change in the base rate revenue, fuel and purchased power adjustment revenue or total bill for any particular customer classification or customer. Rather, they represent the aggregate amount required to fund changes in projected non-fuel and fuel and purchased power revenue requirements for the electric system.

Electric System
Base Rate Revenue, Fuel and Purchased Power
Adjustment Revenue and Total Bill Changes

	Percentage Base Rate Revenue Increase/(Decrease)[1]	Percentage Fuel and Purchased Power Adjustment Revenue Increase/(Decrease)	Total Bill Increase/(Decrease)[2]
Historical			
October 1, 2007	11.00%	26.50%	6.76%
October 1, 2008	7.00	14.30	11.02
October 1, 2009	6.90	(8.70)	(0.87)
October 1, 2010	2.25	(7.10)	(1.92)
October 1, 2011	1.72	(1.90)	0.56
Projected[3]			
October 1, 2012	0.00	0.00	0.00
October 1, 2013	(3.75)	31.37	8.22
October 1, 2014	(7.50)	5.97	2.17
October 1, 2015	2.00	5.63	2.48
October 1, 2016	2.00	1.33	1.38

(1) Change in overall non-fuel revenues collected from all retail customer classes from billing elements, including monthly service charges, kWh energy usage charges, and demand charges for the rate classes with demand metered separately from energy (General Service Demand and Large Power rate categories). Fuel revenue requirements are collected as a uniform charge on all kWh of energy used. Increases or decreases are applied to billing elements to reflect the most recent cost of service studies and to yield the overall revenue requirement.

(2) Based on monthly residential customer bill at 1,000 kWh.

(3) All changes in the System's revenue requirements are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

Upon the commencement of commercial operations of GREC, payments owed by the System under the GREC PPA could significantly increase the overall costs of the System's energy supply. As a result, the System currently is exploring a number of options for reducing the retail electric rate impacts of such increase, including, but not limited to, the following:

- Debt service reductions during the fiscal years ending September 30, 2014 through September 30, 2020 resulting from the issuance of the 2012 Series B Bonds and the refunding of the Bonds to be refunded thereby.

- A potential financing transaction under which the System (or a third-party acting on behalf of the System) would prepay for a portion of the electricity to be delivered by GREC during the term of the GREC PPA, thereby reducing the cost of such delivered electricity.

- Additional long-term wholesale power sales of a portion of the output of the System's overall generating capacity, including capacity and related energy to be purchased by the System under the GREC PPA.

- A reduction in the System's need to obtain additional sources of electricity under other power purchase arrangements.

- The use of amounts on deposit in the Utilities Plant Improvement Fund established under the Resolution for the payment of debt service. (While the City historically has used amounts on deposit in the Utilities Plant Improvement Fund to pay a portion of the costs of the System's capital improvement program, the Resolution permits such amounts to be used to pay or provide for the payment of debt service. The use of such amounts to pay debt service, however, will result in the City having to finance an increased portion of the costs of the System's capital

improvement program through the issuance of debt, rather than through the use of internally-generated funds.)

- The use of amounts on deposit in a reserve known as the "fuel adjustment levelization balance" that the System has accumulated and that is projected to be funded on October 1, 2013 in the amount of approximately $21.8 million, in order to moderate the amount of future base rate revenue and/or fuel and purchased power adjustment revenue increases.

The cost impact of the purchase of electricity under the GREC PPA will flow through the electric system's fuel and purchased power adjustment clause. However, all or a portion of the savings resulting from the options being explored by the System described above may affect the charges included in the electric system's base rates, or may produce additional revenues that could be utilized to mitigate the cost impact of the GREC PPA.

In order to moderate the cost impact of the GREC PPA, Management has developed a multi-year financial plan. This plan includes the projected base rate revenue and fuel and purchased power adjustment revenue changes set forth in the table above, and is based upon a number of assumptions, including the following:

- As described under "THE ELECTRIC SYSTEM – Energy Supply System – *Long-Term Wholesale Power Contract*" herein, the System has entered into a PPA with PEF that expires on December 31, 2013. Management does not intend to extend the term of such PPA or replace it with another power purchase, which will reduce the System's fuel and purchased power costs by approximately $12 million annually, commencing January 1, 2014.

- [assumptions re: average annual savings of $10 million annually to be achieved through variable rate refunding to come]

- Management has assumed that an aggregate of approximately $72 million of amounts on deposit in the Utilities Plant Improvement Fund will be applied to the payment of debt service during the fiscal years ending September 30, 2014 through September 30, 2019, consisting of $20 million in each of the years ending September 30, 2014 and September 30, 2015 and $8 million in each of the years ending September 30, 2016 through September 30, 2019.

- Management has assumed that the amount on deposit in the fuel adjustment levelization balance will be drawn down in the following years and in the respective approximate amounts: fiscal year ending September 30, 2014, $7.5 million; fiscal year ending September 30, 2015, $6.3 million; and fiscal year ending September 30, 2016, $7.9 million.

Based upon these assumptions, Management projects that, beginning with the fiscal year ending September 30, 2014 and continuing through the fiscal year ending September 30, 2019, (a) the System's debt service coverage ratio for Bonds and Subordinated Indebtedness will decline from its historical range of between 2.0 and 2.2 times to between 1.69 and 1.82 times and (b) the System's fixed charge coverage ratio will decline from its historical range of between 1.4 and 1.5 times to between 1.20 and 1.29 times.

For each of the fiscal years ending September 30, 2014 through September 30, 2019, Management intends to submit the portion of its plan relating to such fiscal year (including the proposed base rate revenue and fuel and purchased power adjustment revenue changes for such fiscal year) to the City Commission for approval in connection with its approval of the System's annual budget for such fiscal year.

As of the date of this Official Statement, the System has not yet implemented any of the proposed actions described in the assumptions discussed above in the second preceding paragraph, and no assurances can be given as to whether the System will be able to implement any or all of such actions. As a result, the savings expected to be derived from the implementation of such actions may not be realized, in whole or in

part. In the event that such savings are not realized in whole or in part, Management intends to seek approval from the City Commission to increase further the System's base rate revenues and/or fuel and purchased power adjustment revenues or implement other measures, in order to replace such unrealized savings.

In addition, as discussed above, the System currently is exploring certain other options for reducing the retail electric rate impacts of the GREC PPA (including, but not limited to, the potential GREC prepayment transaction and potential additional long-term wholesale power sales described above), which, if consummated, could result in an improvement of the System's results of operations from the projections described in the preceding paragraph.

The Business Partners Rate Discount Program (the "Business Partners Program") was a program instituted in 1997 as part of a strategy to prepare for retail deregulation. The program provided discounts on the non-fuel portions of participating commercial customers' electric bills. In return, customers committed to the System as their exclusive provider of electric power for ten years or until they cease to conduct business within the System's electric service area. The agreements provided for a "buy-out" clause which raised a significant financial hurdle for switching energy suppliers. Effective June 1, 2002, the discounts for the General Service Demand and Large Power rate classes were increased and in order to obtain these increased discounts, customers were required to execute a new Business Partners Program agreement for a ten-year term. Since October 1, 2006, no new Business Partner Contracts have been entered into. Contracts already in effect will be honored until their respective expiration dates which, for a majority of customers, will occur during 2012. The expiration of these contracts will tend to offset revenue requirement increases in the future.

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

Public streets in Gainesville and in the unincorporated areas of the County within the System's service territory are lit by streetlights served by the System, which bills the appropriate jurisdiction for payment. Currently, the City of Gainesville General Fund (the "General Fund") pays for streetlights in Gainesville. Pursuant to a 1990 agreement, the General Fund reimburses the Board of County Commissioners of the County to, in effect, pay for the streetlights in the unincorporated areas served by the System.

Rates and Charges for Electric Service

The electric rates, which became effective October 1, 2011, are provided below by class of service. Though the rates are functionally unbundled, they are presented to the customer for billing purposes in a rebundled format.

Residential Standard Rate

Customer charge, per month	$8.67
First 250 kWh, Total charge per kWh	$0.034
251 – 750 kWh, Total charge per kWh	$0.068
All kWh per month over 750, Total charge per kWh	$0.102

Residential Optional Time-of-Use Rate

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

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

Customers in this class have not established a demand of 50 kW or greater. Charges for electric service are:	
Customer charge, per month	$26.00
First 1,500 kWh per month, Total charge per kWh	$0.080
All kWh per month over 1,500, Total charge per kWh	$0.108

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

Customers in this class have established a demand of between 50 and 1,000 kW. Charges for electric service are:	
Customer charge, per month	$50.00
Total Demand charge, per kW	$9.25
Total Energy charge, per kWh	$0.051

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

Customers in this class have established a demand of 1,000 kW or greater. Charges for electric service are:	
Customer charge, per month	$300.00
Total Demand charge, per kW	$9.25
Total Energy charge, per kWh	$0.046

Customers in all classes are charged a fuel and purchased power adjustment. All customers that are not City-owned facilities pay a 2.5% Florida gross receipts tax on portions of their bill. All non-exempt customers residing within the City's corporate limits pay a City utility tax of 10% on portions of their bill. All non-exempt customers not residing within the City's corporate limits are assessed a surcharge of 10% and also pay a County utility tax of 10% on portions of their bill. All non-residential taxable customers pay a State sales tax of 7% on portions of their bill. The minimum bill is the customer charge plus any applicable demand charge. The billing demand is defined as the highest demand (integrated for 30 minutes) established during the billing month. The City's rate ordinance also includes clauses providing for primary service metering discounts and facilities leasing adjustment.

Comparison with Other Utilities

As shown in the table below, the average monthly bills for electric service are competitive with other Florida electric utilities. The System's average annual use per residential customer was 10,019 kWh in the fiscal year ended September 30, 2011.

Comparison of Monthly Electric Bills [(1)]

		General Service		
	Residential 1,000 kWh	**Non-Demand 1,500 kWh**	**Demand 30,000 kWh 75 kW**	**Large Power 430,000 kWh 1,000 kW**
Lakeland Electric	$103.48	$159.51	$2,560.38	$35,330.48
Tampa Electric Company	108.18	166.98	2,635.41	38,172.29
Florida Power & Light Company	112.00	159.19	2,545.18	34,930.14
Clay Electric Cooperative, Inc	112.80	173.45	2,865.75	38,644.00
City of Vero Beach	113.14	176.61	3,140.14	44,777.00
City of Tallahassee	116.83	154.91	2,783.20	38,359.23
Orlando Utilities Commission	119.82	186.29	2,905.50	40,557.20
JEA	120.10	164.38	3,003.35	42,057.00
Gulf Power Company	122.38	187.63	2,939.60	40,866.90
Ocala Electric Authority	123.25	176.90	2,953.70	45,076.62
Progress Energy Florida, Inc	124.40	205.12	3,631.18	43,146.29
Ft. Pierce Utilities Authority	126.84	199.43	3,470.85	49,891.30
Gainesville Regional Utilities	**127.67**	**222.50**	**3,803.75**	**50,532.40**
Kissimmee Utility Authority	133.27	212.52	3,765.95	52,245.82

Source: Prepared by the Finance Department of the System based upon published base rates and charges for the time period given with fuel costs provided by personal contact with utility representatives unless otherwise published.

(1) Rates in effect for June 2012 applied to noted billing units, ranked by residential bills. Excludes public utility taxes, sales taxes and surcharges.

Natural Gas System

Each of the System's various rates for natural gas service consists of a "base rate" component and a "purchased gas" component. The base rates are evaluated annually and adjusted as required to fund projected revenue requirements for each fiscal year. The purchased gas adjustment clause provides for increases or decreases in the charge for natural gas to cover increases or decreases in the cost of gas delivered to the System. The current purchased gas adjustment is calculated with a formula using a one-month forward-looking projection and a true-up of the prior month's actual fuel costs.

The table below presents natural gas system base rate revenue, purchased gas adjustment revenue and total bill changes since 2007 and Management's most recent projections of future base rate revenue, purchased gas adjustment revenue and total bill changes. The percentage changes shown do not represent the percentage change in the base rate revenue, purchased gas adjustment revenue or total bill for any particular customer classification or customer. Rather, they represent the aggregate amount required to fund changes in projected non-fuel and purchased gas revenue requirements for the natural gas system.

Natural Gas System
Base Rate Revenue,
Purchased Gas Adjustment and Total Bill Changes

	Percentage Base Rate Revenue Increase/(Decrease)[1]	Percentage Purchased Gas Adjustment Revenue Increase/(Decrease)	Total Bill Increase/(Decrease)[2]
Historical			
October 1, 2007	11.00%	53.50%	22.90%
October 1, 2008	19.00[3]	(31.15)	(4.80)
October 1, 2009	0.00	(22.80)	(10.60)
October 1, 2010	2.25[4]	11.30	0.45
October 1, 2011	0.00[5]	(6.78)	1.90
Projected[6]			
October 1, 2012	0.00	(13.04)	(5.03)
October 1, 2013	0.00	5.00	1.53
October 1, 2014	3.20	4.76	3.38
October 1, 2015	3.20	4.55	3.36
October 1, 2016	3.20	4.35	3.36

(1) Change in overall non-fuel revenues collected from all retail customer classes from billing elements, including monthly service charges and energy usage charges (therms). Fuel revenue requirements are collected as a uniform charge on all therms of energy used. Increases or decreases are applied to billing elements to reflect the most recent cost of service studies and to yield the overall revenue requirement. A separate charge for remediation of the MGP site was implemented in 2002. For additional information on the MGP site, see "THE NATURAL GAS SYSTEM – Manufactured Gas Plant" herein.

(2) Based on monthly residential customer bill at 25 therms.

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

(4) In addition to the base rate increase indicated in the table, the rate for the separate charge for remediation of the MGP site was increased from $0.037 to $0.0434 per therm.

(5) No base rate increase occurred, but the rate for the separate charge for remediation of the MGP site was increased from $0.0434 to $0.0505 per therm.

(6) All changes in the System's revenue requirements are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

Rates and Charges for Natural Gas Service

The current natural gas rates, which became effective October 1, 2011, are provided below by class of service:

Residential Service Rate	
Customer Charge	$9.52 per month
Non-Fuel Energy Charge	$0.483 per therm
General Firm Service Rate	
Customer Charge	$35.00 per month
Non-Fuel Energy Charge	$0.343 per therm
Interruptible Service Rate	
Customer Charge	$375.00 per month
Non-Fuel Energy Charge	$0.315 per therm
Large Volume Interruptible Rate	
Customer Charge	$375.00 per month
Energy Charge	$0.1573 per therm
Manufactured Gas Plant Cost Recovery Factor (Applied to All Rate Classes)	$0.0505 per therm

Customers in all classes are charged a purchased gas adjustment and the Manufactured Gas Plant Cost Recovery Factor. All customers that are not City-owned facilities pay a 2.5% Florida gross receipts tax on portions of their bill. All non-exempt customers residing within the City's corporate limits pay a City tax of 10% on portions of their bill. All non-exempt customers not residing within the City's corporate limits pay a 10% County utility tax on portions of their bill and a 10% surcharge on portions of their bill. All non-residential taxable customers pay a State sales tax of 6% on portions of their bill. For firm customers, the minimum bill equals the customer charge. For interruptible customers, the minimum bill equals the customer charge, plus a minimum billing volume as specified by contract.

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Comparison with Other Utilities

The System's average natural gas charges in effect for the month of June 2012 are compared to those for eleven other municipal and private natural gas companies in the following table. The System's gas rates are among the lowest in the State.

Comparison of Monthly Natural Gas Bills[(1)]

	Residential 25 therms	General Firm 300 therms	Interruptible 30,000 therms
Okaloosa Gas District	$34.30	$310.05	$22,585.80
Gainesville Regional Utilities	**34.36**	**291.05**	**25,140.00**
Kissimmee[(2)]	38.22	361.00	25,871.37
Lakeland[(2)]	38.22	361.00	25,871.37
Orlando[(2)]	38.22	361.00	25,871.37
Tampa[(2)]	38.22	361.00	25,871.37
Tallahassee	40.35	408.68	25,203.20
Central Florida Gas	40.92	302.40	21,756.60
City of Sunrise	41.62	322.04	30,872.37
Pensacola	46.49	466.35	27,681.51
Clearwater	47.00	436.00	32,350.00
Ft. Pierce	54.34	428.13	33,581.06

Source: Prepared by the Finance Department of the System based upon published base rates and charges for the time period given with fuel costs provided by personal contact with utility representatives unless otherwise published.

(1) Rates in effect for June 2012 applied to noted billing volume (excludes all taxes). Sorted in ascending order by residential charges.

(2) Service provided by People's Gas.

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Water and Wastewater System

The table below presents water system base rate revenue and total bill changes since 2007 and Management's most recent projections of future base rate revenue and total bill changes. The percentage increases shown do not represent the percentage change in the base rate revenue or total bill for any particular customer classification or customer. Rather, they represent the aggregate amount required to fund increases in projected revenue requirements for the water system.

Water System
Base Rate Revenue and Total Bill Changes

	Percentage Base Rate Revenue Increase[(1)]	Total Bill Increase[(2)]
Historical		
October 1, 2007	13.00%	9.78%
October 1, 2008	9.00	11.43
October 1, 2009	4.50	3.97
October 1, 2010	7.00	15.01
October 1, 2011	8.41	6.09
Projected[(3)]		
October 1, 2012	3.50	4.78
October 1, 2013	3.00	3.32
October 1, 2014	2.00	2.81
October 1, 2015	2.00	2.73
October 1, 2016	2.00	2.09

(1) Change in overall revenue requirements collected from all retail customer classes from billing elements, including monthly customer service charges and water usage charges. Increases are applied to billing elements to reflect the most recent cost of service study and to yield the overall revenue requirement.

(2) Based on monthly residential customer bill at 7,000 gallons.

(3) All changes in the System's revenue requirements are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

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The table below presents wastewater system base rate revenue and total bill changes since 2007 and Management's most recent projections of future base rate revenue and total bill changes. The percentage increases shown do not represent the percentage change in the base rate revenue or total bill for any particular customer classification or customer. Rather, they represent the aggregate amount required to fund increases in projected revenue requirements for the wastewater system.

Wastewater System
Base Rate Revenue and Total Bill Changes

	Percentage Base Rate Revenue Increase[1]	Total Bill Increase[2]
Historical		
October 1, 2007	17.00%	17.07%
October 1, 2008	11.00	11.45
October 1, 2009	2.25	2.24
October 1, 2010	3.50	4.92
October 1, 2011	4.40	5.44
Projected[3]		
October 1, 2012	3.00	4.58
October 1, 2013	2.40	1.77
October 1, 2014	2.40	2.15
October 1, 2015	2.40	2.81
October 1, 2016	4.30	3.51

(1) Change in overall revenue requirements collected from all retail customer classes from billing elements, including monthly customer service charges and wastewater usage charges (as a function of water usage). Increases are applied to billing elements to reflect the most recent cost of service study and to yield the overall revenue requirement.

(2) Based on monthly residential customer bill at 7,000 gallons.

(3) All changes in the System's rates are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

Rates and Charges for Water and Wastewater Services

Total water and wastewater system revenues are derived from two basic types of charges which reflect costs: (a) monthly service charges and (b) connection charges. The present rate and charges schedule, together with other revenues for the water and wastewater systems, provides sufficient funds to meet all operation and maintenance expenses, prorated debt service, and internally generated capital expense. The connection charges are designed to provide for the capital costs associated with water and wastewater system expansion. Growth in retail revenues due to projected customer growth provides for all other increased costs.

Residential customers are subject to inverted block rates. Under this structure, usage of 0 to 7,000 gallons represents the first tier, under which customers are charged a flat billing rate. Usage greater than 7,000 gallons but less than 20,000 gallons represents the second tier. All usage of 20,000 gallons and above represents the third tier, under which customers are billed at a rate 64% greater than the second tier. The third tier was established to recover capital impacts on the water system by high-volume users. Prior to October 1, 2011, the first tier represented 0 to 9,000 gallons and the second tier represented over 9,000 to 24,000 gallons.

The University of Florida is charged different rates than other customers, because of the City's commitment not to receive General Fund transfers from sales to the University of Florida and because the University of Florida owns and maintains its own on-campus water distribution system. The General Fund transfer policy reflects a historical commitment which enticed the University of Florida to locate in Gainesville in the early nineteen hundreds. In October 1999, the University of Florida water rates were indexed to non-residential water rates. Specifically, the off-campus price was established at 89% of the published System

price. The on-campus price was 78% of the off-campus price. In 2004, the University of Florida rates became cost-of-service based. In October 2006, the fire hydrant charges for the University of Florida were included in base water rates.

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

Monthly Service Charges

Monthly service charges are levied for the actual units of service rendered individual customers. Customers pay a rate per thousand gallons of water consumed or wastewater treated, and all customers pay a monthly billing charge. All wastewater customers are subject to rate surcharges for wastewater discharges which exceed normal domestic strength. Commercial customers are billed 95% of their water usage as wastewater while residential customers have individual maximum charges, established by consumption during non-irrigating seasons, to eliminate non-returned water from their wastewater bill. Customers are subject to fees to pay the costs associated with monitoring their discharge. The table below lists the charges for water and wastewater service that became effective October 1, 2011.

Current Monthly Charges For Water and Wastewater Services

Water Rates:	
Residential	
Customer Billing Charge	$8.65 per month
Consumption Rate:	
First 7,000 gallons	$2.05 per 1,000 gallons
Over 7,000 to less than 20,000 gallons	$3.65 per 1,000 gallons
20,000 or more gallons	$6.00 per 1,000 gallons
Commercial	
Customer Billing Charge	$8.65 per month
Consumption Rate	$3.65 per 1,000 gallons
University of Florida	
Customer Billing Charge	$8.65 per month
Consumption Rate:	
On-campus facilities	$2.17 per 1,000 gallons
Off-campus facilities	$3.21 per 1,000 gallons
City of Alachua[(1)]	
Customer Billing Charge	$8.65 per month
Consumption Rate	$1.62 per 1,000 gallons
Wastewater Rates:	
Residential and Commercial	
Customer Billing Charge	$7.40 per month
All Usage[(2)]	$5.50 per 1,000 gallons

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

(2) Wastewater rates apply to all metered water consumption up to a specified maximum. The residential maximum is established for each customer based upon its winter (December or January) maximum water consumption. The non-residential maximum is 95% of metered water use.

Comparison with Other Cities

The System's average water and wastewater charges in effect for the month of June 2012 are compared to those for thirteen other Florida cities in the table below.

Comparison of Monthly Residential Water and Wastewater Bills[(1)]

City	Water	Wastewater	Total
Orlando	$12.63	$30.02	$42.65
Tampa	15.48	29.28	44.76
Orange County	13.62	31.66	45.28
Lakeland	16.39	29.68	46.07
Winter Haven[(2)]	18.84	29.23	48.07
Pensacola (ECUA)	20.91	28.15	49.06
Jacksonville	19.15	30.74	49.89
Ocala[(3)]	14.98	36.89	51.87
Gainesville Regional Utilities	**19.69**	**32.95**	**52.64**
St. Augustine	26.83	28.43	56.26
Tallahassee[(2)(3)]	14.60	42.12	56.72
Ft. Pierce	28.62	39.05	62.67
Daytona Beach	36.24	31.50	67.74
Lake City	27.11	47.98	75.09

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

(1) Comparisons are based on 6,000 gallons of metered water and 5,000 gallons of wastewater treated and rates in effect for June 2012; excludes all taxes, surcharges, and franchise fees; sorted by total charges.

(2) Similar water treatment process -- filtration and softening.

(3) Similar wastewater treatment process -- public access reuse levels.

Surcharge

Non-exempt water customers residing within the City's corporate limits are assessed a 10% utility tax. Non-exempt water customers residing outside the City's corporate limits are assessed a 25% surcharge and pay a 10% County utility tax. There is no utility tax on wastewater. However, non-exempt wastewater customers residing outside the City's corporate limits are assessed a 25% surcharge. Effective October 1, 2001, water and wastewater connection charges are subject to the 25% surcharge imposed on non-exempt customers not residing within the City's corporate limits.

Connection Charges

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

Effective October 1, 2011, transmission and distribution/collection system connection charges for individual lots are $390 to connect to the water system and $570 to connect to the wastewater system. The water meter installation charge is $470 for a typical single family dwelling (requiring 5/8 inch meter). The water system connection charges for a typical single family dwelling (requiring 5/8 inch meter) are $610 for new water service and the wastewater flow-based connection charges are $3,210 for new wastewater service. Total water and wastewater connection charges for a typical single family dwelling are $3,820.

Comparison of Total Monthly Cost of Electric, Gas, Water and Wastewater Services for Residential Customers in Selected Florida Locales

The following table shows comparisons of the total monthly cost for a "basket" of electric, gas, water and wastewater services for residential customers in selected Florida locales for the month of January 2012, based upon (a) actual average annual usage by the System's residential customers by category of service during the fiscal year ended September 30, 2011 and (b) standard industry benchmarks for average annual usage by category of service.

Comparison of Monthly Utility Costs[(1)]

	Based Upon Actual Average Annual Usage by Residential Customers of the System[(2)]	Based Upon Standard Industry Usage Benchmarks[(3)]
Lakeland	$180.48	$204.50
Tampa	186.07	217.93
Orlando	191.66	218.41
Gainesville	**194.88**	**233.18**
Pensacola	195.08	227.08
Clay County	195.31	222.01
Vero Beach	195.52	221.48
Tallahassee	202.90	232.87
Kissimmee	205.73	234.30
Jacksonville	206.87	234.11
Ocala	212.47	238.32
Ft. Pierce	223.41	257.87

Source: Prepared by the Finance Department of the System based upon (a) in the case of electric and gas service, published base rates and charges for the time period given, with fuel costs provided by personal contact with utility representatives unless otherwise published and (b) in the case of water and wastewater service, published rates and charges and/or personal contact with utility representatives.

(1) Based upon rates in effect for January 2012 by the actual providers of the specified services in the indicated locales, applied to the noted billing units. Ranked by actual average annual usage by residential customers of the System. Excludes public utility taxes, sales taxes, surcharges, and franchise fees.

(2) Monthly costs of service have been calculated based upon actual average annual usage by residential customers of the System during the fiscal year ended September 30, 2011, as follows: for electric service: 835 kWh; for natural gas service: 25 therms; for water service: 6,000 gallons of metered water; and for wastewater service: 5,000 gallons of wastewater treated.

(3) Monthly costs of service have been calculated based upon standard industry benchmarks for average annual usage by residential customers, as follows: for electric service: 1,000 kWh; for natural gas service: 25 therms; for water service: 7,000 gallons of metered water; and for wastewater service: 7,000 gallons of wastewater treated.

Since the System's rates for electric, water and wastewater service are designed to encourage conservation, actual average usage of those utility services by residential customers of the System are lower than the standard industry benchmarks for average annual usage by residential customers that typically are used for rate comparison purposes. As a result, the total monthly cost of electric, gas, water and wastewater service for residential customers of the System, calculated based upon actual average usage by such customers during the fiscal year ended September 30, 2011, compares favorably to what the total monthly cost of such services would have been, calculated based upon such standard industry benchmarks.

SUMMARY OF COMBINED NET REVENUES

The following table sets forth a summary of combined net revenues for the fiscal years ended September 30, 2009 through September 30, 2011 and for the six-month periods ended March 31, 2011 and March 31, 2012, and has been prepared in accordance with the requirements of the Resolution. The information in the table for the fiscal years ended September 30, 2009 through September 30, 2011 is derived from the audited financial statements of the City for the System. The information for the six-month periods ended March 31, 2011 and March 31, 2012 is derived from the City's unaudited financial statements for the System. Such information should be read in conjunction with the City's audited financial statements for the System and the notes thereto for the fiscal years ended September 30, 2011 and 2010, included as APPENDIX B to this Official Statement.

	Fiscal Years Ended September 30,			Six Months Ended March 31,	
	2009	**2010**	**2011**	**2011**	**2012**
				(unaudited)	(unaudited)
			(dollars in thousands)		
Revenues:					
Electric	$266,796	$272,350	$264,965	$121,692	$122,700
Gas	26,202	27,858	29,966	15,677	14,685
Water	28,500	30,399	32,361	14,680	15,777
Wastewater	32,467	34,057	35,612	17,499	17,359
GRUCom	9,620	11,675	13,263	5,821	7,364
Total Revenues	$363,585	$376,339	$376,167	$175,369	$177,885
Operation and Maintenance Expenses:					
Electric	$188,368	$184,175	$172,601	$79,022	$74,808
Gas	19,145	19,658	18,759	12,007	9,069
Water	12,590	12,490	12,391	5,718	6,258
Wastewater	12,675	12,652	13,562	6,642	6,419
GRUCom	4,866	5,376	5,307	2,729	2,985
Total Operation and Maintenance Expenses	$237,644	$234,351	$222,620	$106,118	$99,539
Net Revenues:					
Electric	$78,428	$88,175	$92,364	$42,670	$47,892
Gas	7,057	8,200	11,207	3,670	5,616
Water	15,910	17,909	19,970	8,962	9,519
Wastewater	19,792	21,405	22,050	10,857	10,940
GRUCom	4,754	6,299	7,956	3,092	4,379
Total Net Revenues	$125,941	$141,988	$153,547	$69,251	$78,346
Aggregate Debt Service on Bonds	$51,062	$62,168	$64,007	$31,447	$32,587
Debt Service Coverage Ratio for Bonds	2.47	2.28	2.40	2.20	2.40
Debt Service on Subordinated Indebtedness[(1)]	$10,328	$11,164	$6,261	$3,306	$2,980
Total Debt Service on Bonds and Subordinated Indebtedness	$61,390	$73,332	$70,268	$34,753	$35,567
Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness	2.05	1.94	2.19	1.99	2.20

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

MANAGEMENT'S DISCUSSION OF SYSTEM OPERATIONS

Results of Operations

The operating results of the System reflect the results of past operations and are not necessarily indicative of results of operations for any future period. Future operations will be affected by factors relating to changes in rates, fuel and other operating costs, environmental regulation, increased competition in the electric utility industry, economic growth of the community, labor contracts, population, weather, and other matters, the nature and effect of which cannot at present be determined.

For the electric system, base rate revenue requirements were increased by 6.90% for the fiscal year ended September 30, 2010, 2.25% for the fiscal year ended September 30, 2011 and 1.72% for the fiscal year ending September 30, 2012. These increases can largely be attributed to the upward rate pressures caused by lower than anticipated sales, while increased efficiencies in the System controlled these increases, keeping them in line with inflation. For the fiscal years ended September 30, 2010 and September 30, 2011, the electric system contributed approximately $7.7 million and $3 million, respectively, to the Rate Stabilization Fund. For the fiscal year ending September 30, 2012, the electric system is projected to withdraw $3.2 million from the Rate Stabilization Fund.

Energy sales (in MWh) to retail and wholesale customers (native load) decreased 0.5% per year from the fiscal year ended September 30, 2009 to the fiscal year ended September 30, 2010 and by 3.5% from the fiscal year ended September 30, 2010 to the fiscal year ended September 30, 2011. Native load energy sales from October 1, 2011 to March 31, 2012 were 8.2% less than those during the same period of the previous year. The number of electric customers increased at an average annual rate of 0.7% between the fiscal years ended September 30, 2007 and September 30, 2011, while sales (in MWh) decreased by 3.0% between the same periods. This sales decrease can be attributed to economic conditions, weather, price response and conservation efforts.

Native load fuel cost decreased by approximately $3.3 million from the fiscal year ended September 30, 2009 to the fiscal year ended September 30, 2010. From the fiscal year ended September 30, 2010 to the fiscal year ended September 30, 2011, the cost decreased by approximately $12.3 million. Fuel and purchased power adjustment revenues decreased by 2.6% from the fiscal year ended September 30, 2009 to the fiscal year ended September 30, 2010 and by 10% from the fiscal year ended September 30, 2010 to the fiscal year ended September 30, 2011. Net revenues from electric interchange sales increased by approximately $0.4 million between the fiscal year ended September 30, 2009 and the fiscal year ended September 30, 2010. From the fiscal year ended September 30, 2010 to the fiscal year ended September 30, 2011, these revenues decreased by approximately $1.2 million. From October 1, 2011 to March 31, 2012, these revenues were less than those during the same period of the previous year. The reduction in electric interchange sales was attributable to several factors, including decreasing demand and economic pricing.

Natural gas system retail sales are largely dependent on winter weather. From the fiscal year ended September 30, 2007 to the fiscal year ended September 30, 2009, natural gas sales decreased each year by an average of 1.2%. Sales in the fiscal year ended September 30, 2010 increased by 5.7% over the prior fiscal year due to an increased number of heating degree days caused by an abnormally cold winter. The fiscal year ended September 30, 2011 experienced normal weather, resulting in a decrease in sales of 3.9% from the prior fiscal year. Natural gas retail sales were 25.1% less from October 1, 2011 to March 31, 2012 than during the same period of the previous year. This was attributable to a comparatively moderate winter in the most recent period. The number of gas customers increased at an annual rate of approximately 0.6% between the fiscal years ended September 30, 2007 and September 30, 2011. Natural gas fuel costs increased by approximately 1.3% from the fiscal year ended September 30, 2009 to the fiscal year ended September 30, 2010, and increased by approximately 14.5% to the fiscal year ended September 30, 2011. Since these costs are passed along to customers as part of a purchased gas adjustment charge each month, any natural gas cost increases or decreases are offset by purchased gas adjustment revenues. For the fiscal year ended September 30, 2010, the natural gas system contributed approximately $1.5 million to the Rate Stabilization Fund. For the fiscal year ended September 30, 2011, the natural gas system withdrew approximately $820,000 from the Rate

Stabilization Fund. For the fiscal year ending September 30, 2012, the natural gas system is projected to withdraw $2.7 million from the Rate Stabilization Fund.

In order to recover costs associated with the remediation of soil contamination caused by the operation of an MGP, the City established a per therm charge as part of the gas system's customer rate in the fiscal year ended September 30, 2003. The estimated remaining cost to be recovered is approximately $20 million. See "THE NATURAL GAS SYSTEM – Manufactured Gas Plant" herein. For the fiscal year ending September 30, 2012, the rate for the per therm charge with respect to the MGP site was increased to $0.055 from $0.0434.

Water system sales are dependent on seasonal rainfall. From the fiscal year ended September 30, 2007 to the fiscal year ended September 30, 2011, sales decreased by an average annual rate of 5.4% and customers grew by 0.6%. Revenues from water sales increased slightly by approximately $7,043 from the fiscal year ended September 30, 2009 to the fiscal year ended September 30, 2010. Revenues increased by approximately $4.1 million from the fiscal year ended September 30, 2010 to the fiscal year ended September 30, 2011. From October 1, 2011 to March 31, 2012, water revenues were 9.8% greater than revenues during the same period of the previous year. The water revenue increases were the result of rate increases, kept moderate by low customer growth and slow sales growth due to price sensitivity and conservation efforts. Water base rate revenue requirements were increased by 4.50% in the fiscal year ended September 30, 2010, 7.00% in the fiscal year ended September 30, 2011 and 8.41% in the fiscal year ending September 30, 2012. For the fiscal year ended September 30, 2010, the water system withdrew approximately $2.3 from the Rate Stabilization Fund. For the fiscal year ended September 30, 2011, the water system contributed approximately $400,000 to the Rate Stabilization Fund. For the fiscal year ending September 30, 2012, the water system is projected to withdraw $49,000 from the Rate Stabilization Fund.

Wastewater system billings generally track water system sales. For the fiscal year ended September 30, 2010, as compared with the fiscal year ended September 30, 2009, the wastewater system billed approximately 4.1% less volume of wastewater. Revenues during this same period also decreased 4.1%. Approximately 0.95% less wastewater was billed for the fiscal year ended September 30, 2011, as compared to fiscal year ended September 30, 2010, while revenues increased by 5.2% during the period, also due to base rate revenue requirement increases. Wastewater base rate revenue requirements were increased by 2.25% in the fiscal year ended September 30, 2010, 3.50% in the fiscal year ended September 30, 2011 and 4.40% in the fiscal year ending September 30, 2012. Wastewater revenues from October 1, 2011 to March 31, 2012 were 5.9% greater than during the same period of the previous fiscal year. For the fiscal years ended September 30, 2010 and September 30, 2011, the wastewater system withdrew approximately $1.9 million and $1.1 million, respectively, from the Rate Stabilization Fund. For the fiscal year ending September 30, 2012, the wastewater system is projected to withdraw $769,000 from the Rate Stabilization Fund.

GRUCom continued to expand its services during the period from the fiscal year ended September 30, 2009 to the fiscal year ended September 30, 2010, with a slight increase in sales for the fiscal year ended September 30, 2011. From the fiscal year ended September 30, 2009 to the fiscal year ended September 30, 2010, GRUCom sales increased by approximately 11.28%. Between the fiscal years ended September 30, 2010 and September 30, 2011, GRUCom sales increased by 5.2%. For the six months ended March 31, 2012 as compared to the same period in 2011, GRUCom sales decreased slightly by 1%. For the fiscal years ended September 30, 2010 and September 30, 2011, GRUCom withdrew approximately $100,000 and $1.2 million, respectively, from the Rate Stabilization Fund. For the fiscal year ending September 30, 2012, GRUCom is projected to withdraw $3.3 million from the Rate Stabilization Fund.

The Debt Service Coverage Ratio for Bonds decreased from 2.47 for the fiscal year ended September 30, 2009 to 2.28 for the fiscal year ended September 30, 2010, and increased to 2.40 for the fiscal year ended September 30, 2011. For the six months ended March 31, 2012 as compared to the same period in 2011 this ratio increased from 2.20 to 2.40. The Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness decreased from 2.05 to 1.94 from the fiscal year ended September 30, 2009 to the fiscal year ended September 30, 2010, and increased to 2.19 for the fiscal year ended September 30, 2011. For the six months ended March 31, 2012 as compared to the same period in 2011, this ratio increased from 1.99 to 2.20. The decreases in the Debt Service Coverage Ratio for Bonds between the fiscal years ended September 30, 2009 and September 30,

2010 were the result of an increase in Total Debt Service of 19.4% and a 12.7% increase in Net Revenues between those same periods. The increase in the Debt Service Coverage Ratios for Bonds between the six months ended March 31, 2012 as compared to the same period in 2011 is the result of an increase in Net Revenues of 13.1%, which was greater proportionally than the increase in Total Debt Service of 2.3% between those periods. The increase in the Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness between the fiscal years ended September 30, 2010 and September 30, 2011 was attributable to a Net Revenue increase of 8.1%, which was greater proportionally than the decrease of 4.2% in Total Debt Service between those same periods.

The operating results of the System reflect the results of past operations and are not necessarily indicative of results of operations for any future period. Future operations will be affected by factors relating to changes in rates, fuel and purchased power and other operating costs, environmental regulation, increased competition in the electric utility industry, economic growth of the community, labor contracts, population, weather, and other matters, the nature and effect of which cannot at present be determined. Net Revenues take into account amounts transferred to or from the Rate Stabilization Fund as permitted by the Resolution. The amounts of these transfers were as follows:

	Transfers from (to) the Rate Stabilization Fund Fiscal Years Ended September 30, (dollars in thousands)			**Balance at September 30,**
	2009	**2010**	**2011**	**2011[(1)]**
Electric	$11,054	$(7,692)	$(3,017)	$51,683
Gas	(3,208)	(1,549)	820	7,630
Water	997	2,289	(373)	512
Wastewater	(901)	1,880	1,101	2,339
GRUCom	(958)	105	1,172	5,294
Total	$6,684	$(4,967)	$(297)	$67,458

(1) Includes amounts on hand plus amounts to be deposited or withdrawn that were accrued as of September 30, 2011.

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

Transfers to General Fund

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

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

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

1. The amount of water and wastewater surcharges collected in the current fiscal year; and

2. 14.65% of gas, water and wastewater gross revenues for the second preceding fiscal year after deducting the following for the same second preceding fiscal year:

(a) surcharges,
(b) fuel expenses, and
(c) revenues from water sales to the University of Florida.

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

The GRUCom transfer to the General Fund for the fiscal year ended September 30, 2011 was set at $365,543.

The transfer to the General Fund may be made only to the extent such monies are not required to pay debt service on the Bonds (including the 2012 Series B Bonds) and Subordinated Indebtedness or to make other required payments under the Resolution, including payments into the Utilities Plant Improvement Fund.

In March 2010, the System's staff presented an alternative approach to the City Commission, recommending that transfers to the General Fund for the combined utility system be fixed at certain levels for the fiscal years ending September 30, 2010 through September 30, 2014 and be paid from the combined revenues of the System.

This alternative will provide certainty around the transfers in uncertain economic times, allowing for cash flow predictability. Additionally, this alternative is consistent with the projections presented in the City's and the System's five-year forecast. Discussions with respect to transfers to the General Fund for the fiscal year ending September 30, 2015 will commence no later than September 1, 2013.

In an effort to avoid significant negative consequences to either the System or the City, the System's staff recommended and the City Commission accepted the following gain/loss sharing component.

The audited financial statements of GRU will be reviewed for the aforementioned fiscal years to determine what the transfers to the General Fund would have been under the Original Formulas.

1. If the difference between the calculated transfer per the Original Formulas is no greater than $500,000 over or under the agreed upon fixed level indicated in the table above for that particular audited year, then the transfer will remain unchanged.

2. If the difference between the calculated amount per the Original Formulas is greater than $500,000 over or under the agreed upon fixed level indicated in the table above for that particular audited year, then the City and the System will equally share the gain or loss for amounts greater than $500,000.

The transfers to the General Fund made in the fiscal years ended September 30, 2009 through 2011 (as determined in accordance with the formulas described above) were as follows:

Fiscal Years ended September 30,	**Transfers to General Fund**	
	Amount	**% Increase/(Decrease)**
2009	$34,488,259	9.6
2010	$34,348,831	(0.4)
2011	$35,232,540	2.5

In addition to the actual adjusted amounts for the fiscal years ended September 30, 2010 and 2011 above, the following amounts were set for the fiscal years ended September 30, 2012 through September 30, 2014:

Fiscal Years ending September 30,	Transfers to General Fund	
	Amount	% Increase/(Decrease)
2012	$36,222,989	2.8
2013	$36,666,551	1.2
2014	$38,101,425	3.9

Investment Policies

The System's investment policy provides for investment of its funds to (i) obtain a maximum yield consistent with preservation of capital, (ii) obtain liquidity of its portfolio, (iii) satisfy Resolution requirements, and (iv) maintain prudent investment practices. The System's funds are invested only in securities of the type and maturity as permitted by the Resolution, Florida Statutes and its internal investment policy. See "Investment of Certain Funds and Accounts" and the definition of "Investment Securities" in "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION" in APPENDIX D hereto for a description of the types of investments that the City is permitted to make under the Resolution. The System does not presently have, nor does it intend to acquire in the future, derivative or leveraged investments or investments in mortgage-backed securities. The System does not invest its funds through any governmental or private investment pool (including, without limitation, the Local Government Surplus Funds Trust Fund administered by the State's Board of Administration).

Competition

In recent years, energy-related enterprises have become more influenced by the competitive pressures of an increasingly deregulated industry, especially the wholesale power market. The Florida retail electric system is under no immediate threat of market loss due to the current laws and regulations governing the supply of electricity in Florida, which presently prohibit any form of retail competition. The System's other enterprises currently are operating in competitive environments of one form or another. These competitive environments include the wholesale power market, natural gas system by-pass and competition against other LP distributors and alternative fuel types, private wells, septic tanks and privately owned water and wastewater systems, and the entire telecommunications arena for GRUCom.

Management's response to the increasing competition in the wholesale power market (including interchange and economy sales), and the corollary open access changes in the electric transmission network has been to stay involved and form strategic alliances. These alliances fall into two categories, joint ventures and industry associations. The most significant joint venture the System is currently involved in is TEA, a Georgia nonprofit corporation established for power marketing, fuels procurement, and financial hedging and risk management (see "ELECTRIC SYSTEM – Energy Sales – *The Energy Authority*" herein). The System has also become a member of Colectric, a member-owned collaborative business serving the public power industry. Colectric provides key services related to the development, project management, operations, and maintenance of electric generation, transmission, distribution, gas, and infrastructure facilities. Key benefits to the System have included sharing of spare parts and bulk purchasing of commodities and materials. The System's staff is very involved with the American Public Power Association, the Florida Municipal Electric Association ("FMEA"), and FMPA. These industry associations have proven to be a powerful way to stay informed, plan, and help shape federal and state policies to protect customer interests and assure the fair treatment of municipal systems.

The natural gas system has been subjected to competition due to the deregulation that has occurred in that industry since the early 1990's. A consequence of this deregulation for municipal gas utilities in Florida is that "end-users" are allowed to secure and purchase their gas requirements directly from gas producers,

thereby "bypassing" the monopoly producer/pipeline systems. The System's rate structures largely avoid this concern. The System passes fuel costs directly through its purchased gas adjustment, and rates applicable for transportation of system by-pass are allowed to earn a return on distribution infrastructure, which is the sole basis for the System's revenue requirements. Thus, a customer electing to bypass the System simply substitutes its ability to buy gas for the System's ability to buy gas. The sole example of bypass experienced by the System to date was in the case of service to PEF's cogeneration plant at the University of Florida wherein the amount of non-fuel revenue realized from the customer was virtually unchanged by its decision to contract for its own gas supply. Several strategies are being implemented to gain a competitive advantage for the System in natural gas sales growth. Two very significant competitive advantages are the System's position of having among the lowest gas rates in the State, and the environmental benefits of natural gas for certain appliance end uses. Appliance and distribution system construction rebates, in combination with temporary LP distribution systems, are employed to rapidly and flexibly accommodate new development. These LP systems and appliances are converted to natural gas when gas pipeline extensions become feasible. Rebates are also used to assist customers in overcoming the short-term economic obstacles of converting existing electric appliances to natural gas in order to allow them to obtain long-term financial, convenience, and environmental benefits, both inside and outside the System's electrical service territory. The System has franchises to provide retail natural gas services to two nearby cities in the County, Alachua and High Springs. See "THE NATURAL GAS SYSTEM – Service Area" herein for a discussion of the status of the System's franchise agreement to provide natural gas service in Alachua.

Private wells, septic tanks, and privately owned water utilities are the traditional alternatives for water and wastewater utility services and serve small populations where service from centralized facilities is less practical or desirable. Comprehensive planning in the City and the surrounding unincorporated areas strongly discourages urban sprawl, and the System's incumbent status, competitive rates and environmental record have resulted in a very favorable competitive position, with sustained high levels of market capture from population growth.

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

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

The System currently is pursuing opportunities related to several large development projects occurring in the service territory to diversify revenues while investing in energy efficient systems, as was successfully pursued in the South Energy Center. Due to the existing knowledge, experience, infrastructure and resources within the System's core utilities, it has a competitive advantage as it focuses on chilled water services, and emergency backup power opportunities.

Chilled water provides an additional revenue source, while providing a more efficient, cost effective cooling system that is consistent with environmental stewardship. The System's strategy for chilled water service does not depend on extensive distribution systems; instead, each chilled water and generation facility is

located on the premises of the development. This strategy will limit the System's exposure for stranded assets or investing in infrastructure without having full subscription to the available service, especially at a time when development has slowed significantly.

Additionally, the Innovation District is an area of approximately 80 acres between the University of Florida's campus and downtown Gainesville that is being transformed into an area of high urban density to house and support scientific research and development. The Innovation District is currently a mixture of low density office, commercial and residential uses, and includes the former Shands at Alachua General Hospital ("AGH") site. The former Shands at AGH hospital was demolished and the entire site is now called Innovation Square. The University of Florida has constructed a three story building known as Innovation Hub on the site. Innovation Square forms the nucleus of the Innovation District and is a research oriented development. The Innovation District ultimately is projected to be comprised of approximately 3.7 million square feet of lab, business, residential, commercial, and institutional space. GRU will provide commercial power, emergency power, natural gas, water, wastewater, reclaimed water, chilled water, and telecommunication services to the Innovation District. The Innovation District is projected to constitute significant utility loads, including an electric load of approximately 4 MW.

Redevelopment of the Innovation District is an ambitious undertaking and will require that basic utility infrastructure be upgraded to support the dense urban development that is envisioned. GRU is working actively to improve utility infrastructure in a phased manner to support the very significant economic growth that is anticipated within the Innovation District. Redevelopment in and around downtown Gainesville, particularly when coupled with the University of Florida's international reputation as a premier scientific research institution, present tremendous opportunities for economic growth.

The System owns and operates a recently constructed facility, known as the Innovation Energy Center, dedicated to serve Innovation Square. The facility provides chilled water and emergency power for the Innovation Hub building and future buildings being planned for the Innovation Square development, under a 20-year contract with the University of Florida. The modular facility has a current capacity of 870 tons of chilled water with planned expansion to 7,000 tons as additional customers are connected to the facility.

Currently, there is no initiative and little indication of interest in pursuing retail electric deregulation either in Florida or nationwide. Management has a renewed focus on maintaining and improving the projected levels of Net Revenues, Debt Service coverage, and the overall financial strength of the System. To be successful at this, the System will require many of the same goals and targets necessary to be prepared for retail competition. These goals and targets relate to enhancing customer loyalty and satisfaction by providing safe and reliable utility services at competitive prices.

Ratings Triggers and Other Factors That Could Affect the System's Liquidity, Results of Operations or Financial Condition

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

The table below sets forth the current ratings for GRU's outstanding Utilities System Revenue Bonds and GRU's outstanding Commercial Paper Notes, as assigned by Moody's, S&P and Fitch. Given its current levels of ratings, Management does not believe that the rating and other credit-related triggers contained in any of its existing agreements will have a material adverse effect on GRU's liquidity, results of operations or financial condition. However, GRU's ratings reflect the views of the rating agencies and not of GRU, and therefore, GRU cannot give any assurance that its ratings will be maintained at current levels for any period of time.

	Moody's	S&P	Fitch
Outstanding Utilities System Revenue Bonds	Aa2	AA	AA
Outstanding Commercial Paper Notes.....	P1	A-1+	F1+

Liquidity Support for GRU's Variable Rate Bonds

GRU has entered into separate standby bond purchase agreements with certain commercial banks in order to provide liquidity support in connection with tenders for purchase of the 2005 Series C Bonds, the 2006 Series A Bonds, the 2007 Series A Bonds and the 2008 Series B Bonds (collectively the "Liquidity Supported Bonds"). The standby bond purchase agreements related to the 2005 Series C Bonds, the 2006 Series A Bonds, the 2007 Series A Bonds and the 2008 Series B Bonds currently have stated termination dates of November 15, 2012, July 5, 2013, March 1, 2014 and May 9, 2014, respectively, which dates are subject to extension in the sole discretion of the respective banks.

The standby bond purchase agreements relating to the Liquidity Supported Bonds provide that any Liquidity Supported Bond that is purchased by the applicable bank pursuant to its standby bond purchase agreement may be tendered or deemed tendered to GRU for payment upon the occurrence of certain "events of default" with respect to GRU under such standby bond purchase agreement. Upon any such tender or deemed tender for purchase, the Liquidity Supported Bond so tendered or deemed tendered will be due and payable immediately.

In general, each standby bond purchase agreement (other than the standby purchase agreement relating to the 2008 Series B Bonds) provides that it is an "event of default" on the part of GRU thereunder if the ratings on the Liquidity Supported Bonds to which such standby bond purchase agreement relates, without giving effect to any third-party enhancement, fall below "Baa3" by Moody's and "BBB-" by S&P or are suspended or withdrawn for credit-related reasons. The standby bond purchase agreement relating to the 2008 Series B Bonds provides that it is an "event of default" on the part of GRU thereunder if the ratings on the 2008 Series B Bonds, without giving effect to any third-party enhancement, fall below "A2" by Moody's and "A" by S&P or are suspended or withdrawn.

As discussed under "PLAN OF FINANCE – The 2012 Series B Bonds" herein, in connection with the issuance of the 2012 Series B Bonds, the City plans to enter into the 2012 Standby Purchase Agreement with a commercial bank in order to provide liquidity support in connection with tenders for purchase of the 2012 Series B Bonds. The 2012 Standby Purchase Agreement will provide that 2012 Series B Bonds purchased by such bank may be tendered or deemed tendered to GRU for payment upon the occurrence of certain "events of default" with respect to GRU under the 2012 Standby Purchase Agreement. Upon any such tender or deemed tender for purchase, the 2012 Series B Bond so tendered or deemed tendered will be due and payable immediately. The 2012 Standby Purchase Agreement will provide that it is an event of default on the part of GRU thereunder if the ratings on the 2012 Series B Bonds, without giving effect to any third-party credit enhancement, fall below "A" by Fitch, "A2" by Moody's or "A" by S&P or are withdrawn or suspended for credit-related reasons.

Any bond purchased by the applicable bank under a standby bond purchase agreement will bear interest at the rate per annum set forth in such standby bond purchase agreement, which rate may be significantly higher than market rates of interest borne by such bonds when held by investors.

Liquidity Support for GRU's Commercial Paper Program

GRU also has entered into separate credit agreements with certain commercial banks in order to provide liquidity support for the CP Notes. If, on any date on which a CP Note of a particular series matures, GRU is not able to issue additional CP Notes of such series to pay such maturing CP Note, subject to the satisfaction of certain conditions, the applicable bank is obligated to honor a drawing under its credit agreement in an amount sufficient to pay such maturing CP Note. The credit agreements for the Series C CP Notes and the Series D Taxable CP Notes currently have stated termination dates of November 30, 2015 and

September 11, 2014, respectively, which dates are subject to extension in the sole discretion of the respective banks.

The credit agreements provide that, upon the occurrence and continuation of certain "tender events" on the part of GRU thereunder, the banks may, among other things, (a) issue "No-Issuance Instructions" to the issuing agent for the CP Notes of the applicable series, instructing such paying agent not to issue any additional CP Notes of such series thereafter, (b) terminate the commitment and the applicable bank's obligation to make loans or (c) require immediate payment from GRU for any outstanding principal and accrued interest due under the respective credit agreement.

With respect to the Series C CP Notes, among others, it is a tender event on the part of GRU under the related credit agreement if the ratings assigned to any of GRU's long-term debt obligations fall below "Baa3" by Moody's, "BBB-" by S&P or "BBB-" by Fitch or are suspended or withdrawn for credit-related reasons.

With respect to the Series D Taxable CP Notes, among others, it is a tender event on the part of GRU under the related credit agreement if the ratings assigned to any of GRU's long-term debt obligations fall below "Baa2" by Moody's or "BBB" by S&P or are suspended or withdrawn for credit-related reasons.

Any drawing made under a credit agreement bears interest at the rate per annum set forth in such credit agreement, which rate may be significantly higher than market rates of interest borne by the related CP Notes.

Interest Rate Swap Transactions

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

Under the master agreements, the interest rate swap transactions entered into pursuant to such master agreements are subject to early termination upon the occurrence of certain "events of default" and upon the occurrence of certain "termination events." One such "termination event" with respect to GRU is a suspension or withdrawal of certain credit ratings with respect to GRU, or a downgrade of such ratings below the levels set forth in the master agreement or in the confirmation related to a particular interest rate swap transaction. Upon the early termination of an interest rate swap transaction, GRU may owe the applicable counterparty a termination payment, the amount of which could be substantial. The amount of any such potential termination payment would be determined in the manner provided in the applicable master agreement and would be based primarily upon prevailing market interest rate levels and the remaining term of the interest rate swap transaction at the time of termination. In general, the ratings triggers on the part of GRU contained in the master agreements range from (x) below "Baa2" by Moody's and "BBB" by S&P to (y) below "A2" by Moody's and "A" by S&P.

As of September 30, 2010, GRU's estimated aggregate exposure under all of its then outstanding interest rate swap transactions (*i.e.*, the net amount of the termination payments that GRU would owe its counterparties if all of the interest rate swap transactions were terminated) was $(58,166,255). As of September 30, 2011, GRU's estimated aggregate exposure under all of its then outstanding interest rate swap transactions was $(74,935,599).

GRU adopted Governmental Accounting Standards Board ("GASB") Statement No. 53, Accounting and Financial Reporting for 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 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.

See notes (2), (4), (5) and (8) to the table under the caption "OUTSTANDING DEBT" herein for a discussion of the effects of the proposed refunding of portions of the 2005 Series B Bonds, the 2005 Series C Bonds, the 2006 Series A Bonds and the 2008 Series A Bonds through the issuance of the 2012 Series B Bonds on the interest rate swap transactions entered into with respect to such Bonds to be refunded.

Coal Supply Agreements

The System's coal supply agreements with each of Alpha Coal, Blackhawk Mining and Peabody contain provisions entitling Alpha Coal, Blackhawk and Peabody to exercise certain rights based upon the System's creditworthiness.

Under the terms of each such coal supply agreement, Alpha Coal, Blackhawk Mining and Peabody, as applicable, has the right to require the System to provide additional collateral as security for its obligations under the agreement if the System or any of its affiliates receive a senior unsecured or corporate credit rating below investment grade (a rating of "BBB-" by S&P or an equivalent rating from other public rating agencies). Such additional collateral may be in the form of cash, qualifying letters of credit or other security reasonably acceptable to Alpha Coal, Blackhawk Mining or Peabody, as applicable. Failure of the System to provide additional collateral under any such agreement will constitute an event of default thereunder, and Alpha Coal, Blackhawk Mining or Peabody, as applicable, has the right to terminate such agreement if the default is not adequately cured. Additionally, under each such coal supply agreement, Alpha Coal, Blackhawk Mining or Peabody, as applicable, also has the right to require payment from the System in cash at least three business days in advance of loading until the System provides Alpha Coal, Blackhawk Mining or Peabody, as applicable, with adequate security. If such payment is not received, Alpha Coal, Blackhawk Mining or Peabody, as applicable, may withhold or suspend delivery of its coal.

In the event that any of the System's coal supply agreements are suspended or terminated, the System would have to acquire coal at market rates, which rates could be in excess of the rates that are provided for in such agreement. In addition, if a coal supply agreement is terminated, the System may be required to make a termination payment to the applicable seller that would be based upon then current market prices for coal, which payment could be substantial.

Power Purchase Agreements

The System's PPAs with GREC, LLC and PEF, respectively, contain provisions entitling GREC, LLC and PEF, as applicable, to exercise certain rights based upon the System's creditworthiness.

Pursuant to the PPA with GREC, LLC, within ten days after the biomass-fueled electric generating facility's commercial operation date, the System will be required to pay or provide GREC, LLC with a security deposit equal to $40 million as security for the System's performance of its obligations under the PPA (the "Purchaser's Performance Security"), if the System has a senior unsecured debt rating below "A-" from S&P or below "A3" from Moody's. At the sole discretion of the System, such security deposit may be in the form of an interest bearing cash account, an irrevocable direct pay letter of credit, or a performance bond. In the event the System's senior unsecured debt has an S&P credit rating of "A-" or above or a Moody's credit rating of "A3" or above, then the System's obligations to provide the Purchaser's Performance Security no longer shall be required.

Additionally, the PPA with GREC, LLC provides that the System will be required to provide GREC, LLC, if reasonably requested, with performance assurances if there is a material adverse change in (i) the business, assets, operation or financial condition of the System taken as a whole or (ii) the ability of the System to pay or perform its material obligations under the PPA in accordance with the terms thereof. Failure to provide such assurances would constitute a "Purchaser Event of Default" and would provide GREC, LLC with the right to terminate the PPA.

The System has also entered into a PPA with PEF. This PPA provides that PEF has the right to require the System to provide additional collateral as security for its obligations under the PPA if a "Material Adverse Financial Event" occurs. A Material Adverse Financial Event is defined in the PPA as a drop in the System's unsecured, senior long-term debt or deposit obligations credit ratings (not supported by third party credit enhancement) below "BBB" from S&P or "Baa3" from Moody's. If the System experiences a Material Adverse Financial Event, the PPA provides that the System will be required to provide "Performance Assurance" which may consist of either (i) prepayment to PEF for its services under the PPA or (ii) reasonably sufficient and acceptable security of a continuing nature in an amount at least equal to the cost of service under the PPA for the most recent three-month period. The System will not be obligated to provide Performance Assurance if its credit ratings return to the levels they were at prior to the Material Adverse Financial Event. If the System does not provide PEF with adequate Performance Assurance within fifteen days of its receipt of PEF's written request, an event of default under the PPA will occur and PEF will have the right to terminate the PPA or immediately cease performance thereunder.

In the event that either of the above-described PPAs are suspended or terminated, the System could have to acquire electric capacity and energy at market rates, which rates could be in excess of the rates provided for in the suspended or terminated PPA. In addition, if a PPA is terminated, the System may be required to make a termination payment to the applicable seller that would be based upon then current market prices for electric capacity and/or energy, which payment could be substantial.

FACTORS AFFECTING THE UTILITY INDUSTRY

General

The primary factors currently affecting the utility industry include environmental regulations, restructuring of the wholesale energy markets, the formation of independent bulk power transmission systems, the formation of an Electric Reliability Organization ("ERO") under FERC jurisdiction, and the increasing strategic and price differences among various types of fuels. The Florida Cost Based Broker System ("FCBBS") was instituted at the FPSC's request in lieu of a further restructuring of the wholesale energy markets or the formation of independent transmission systems in Florida. The FCBBS is a system whereby the hourly incremental and decremental cost of participating utilities' generation are matched high to low and the saving/benefits thus obtained are split between the pair, after adjusting for wheeling charges and losses. No state or federal legislation is pending or proposed at this time for retail competition in Florida.

The emerging role of municipalities as telecommunications providers pursuant to the 1996 Federal Telecommunications Act has resulted in a number of state-level legislative initiatives across the nation to curtail this activity. In Florida, this issue culminated in the passage, in 2005, of legislation (SB 1322) 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 of the requirements of SB 1322. Management of the System does not expect that any required compliance with the requirements of SB 1322 would have a material adverse effect on the operations or financial condition of GRUCom.

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

Environmental and Other Natural Resource Regulations

The System is subject to federal, state and local environmental regulations which include, among other things, control of emissions of particulates, SO_2 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 are generally becoming more numerous and more stringent, and as a result, may substantially increase the costs of the System's services by requiring changes in the operation of existing facilities as well as changes in the location, design, construction and operation of new facilities. There is no assurance that the System's facilities in operation, under construction or contemplated will always remain subject to the regulations currently in effect or will always be in compliance with future regulations. Failure to comply with regulatory requirements could result in the complete shutdown of those facilities not in compliance as well as the imposition of civil and criminal penalties. Compliance with regulatory standards will continue to be reflected in capital and operating costs. Increasing concerns about climate change and the effects of GHGs on the environment likely have increased the possibility that regulations governing carbon emissions will be adopted at the federal or state levels. Management is unable to predict whether and when such regulations will be adopted, the potential effects of any such regulations on the operations of the System or the costs associated therewith. Nonetheless, Management is aggressively pursuing strategies to develop facilities to provide renewable and low-carbon intensity generation capacity (see "THE ELECTRIC SYSTEM – Future Power Supply" herein).

Air Emissions

The Clean Air Act

The Clean Air Act regulates emissions of air pollutants, establishes national air quality standards for major pollutants, and requires permitting of both new and existing sources of air pollution. Among the provisions of the Clean Air Act that affect the System's operations are (1) the acid rain program, which requires nationwide reductions of SO_2 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 Best Available Control Technology ("BACT") for all regulated air pollutants and an analysis of the ambient air quality impacts of a facility. In 2009, the EPA announced plans to actively pursue new source review enforcement actions against electric utilities for making such changes to their coal-fired power plants without completing new source review. Under Section 114 of the Clean Air Act, the EPA has the authority to request from any person who owns or operates an emission source, information and records about operation, maintenance, emissions, and other data relating to such source for the purpose of developing regulatory programs, determining if a violation occurred (such as the failure to undergo new source review), or carrying out other statutory responsibilities. In September 2000, the System received from the EPA a Request for Information pursuant to its authority under Section 114 of the Clean Air Act. The System timely provided the requested information to the EPA in two submittals; one in November 2000 and the other in January 2001. To date, the EPA has not replied, nor made any further inquiries.

The Clean Air Interstate Rule

In March 2005, the EPA issued CAIR, which requires reductions of overall NO_x and SO_2 emissions. CAIR is a two-phase cap and trade program under which utilities have several options for complying with the emissions cap, including installation of emission controls, purchasing allowances or switching fuels. The System's DGS and JRK Station are subject to CAIR. Significant capital and operating and maintenance expenditures have been incurred to meet the 2009 and 2010 CAIR compliance dates for Phase I of the NO_x and SO_2 emission caps, respectively. Management decided that the best long-term compliance option for the System was the installation of emission controls on Deerhaven 2, the System's only coal-fired unit. GRU has installed an SCR, a dry circulating scrubber system, and a fabric filter system at Deerhaven 2, all of which went on-line May 1, 2009. An Engineer, Procure, and Construct contractor was used to construct the needed facilities.

On July 11, 2008, a three judge panel of the United States Court of Appeals for the District of Columbia Circuit (the "D.C. Circuit Court") in *North Carolina v. Environmental Protection Agency*, 531 F.3d 896 ("*North Carolina v. EPA*"), unanimously vacated CAIR. On December 23, 2008, the D.C. Circuit Court remanded the CAIR case to the EPA to revise CAIR consistent with its July 11, 2008 decision in *North Carolina v. EPA*. In a subsequent decision in response to petitions for rehearing, however, the court in December 2008 decided to remand CAIR to the EPA without vacating it. This had the effect of reinstating CAIR, including the trading programs, until the EPA issued a new rule consistent with the court's decision. See "*The Clean Air Transport Rule*" below.

The Clean Air Transport Rule

On August 2, 2010, the EPA published in the Federal Register a proposed Clean Air Transport Rule (the "Transport Rule") to reduce the interstate transport of fine particulate matter and ozone. Under Section 110(a)(2)(D)(i)(I) of the Clean Air Act, states are required to prohibit emissions that contribute significantly to nonattainment in, or interfere with maintenance by, any other state with respect to any primary or secondary National Ambient Air Quality Standards ("NAAQS"). In the proposed Transport Rule, the EPA asserts that emissions of SO_2 and NO_x in 32 eastern states contribute significantly to nonattainment or interfere with maintenance of NAAQS in one or more downwind states, more specifically with respect to the annual PM2.5 NAAQS, the 24-hour average PM2.5 NAAQS, and the ozone NAAQS. The proposed Transport Rule contains one preferred "remedy" option and two alternate schemes. The EPA's preferred option establishes a cap-and-trade program with certain "variance" provisions and limited interstate trading.

The proposed Transport Rule has been superseded by the Cross-State Air Pollution Rule. See "*The Cross-State Air Pollution Rule (CSAPR)*" below.

The Cross-State Air Pollution Rule (CSAPR)

On July 7, 2011, the EPA released its final Cross-State Air Pollution Rule ("CSAPR"). This rule is the final version of the Transport Rule and replaces CAIR,

In Florida, only ozone season NO_x emissions are regulated by CSAPR through the use of allowances. Using historical generation figures to project future emissions, Management believes that GRU will have sufficient ozone season NO_x allowances to operate into the foreseeable future.

Petitions for reconsideration and a stay of CSAPR were filed with the U.S. Court of Appeals for the District of Columbia Circuit. The U.S. Court of Appeals for the District of Columbia Circuit issued an order granting the motion to stay. The court's order states that it expects the EPA to continue administering CAIR until the associated challenges to CSAPR are resolved, likely sometime in mid- to late-summer 2012.

The Clean Air Mercury Rule (CAMR)

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

Mercury and Air Toxics Standards (MACT)

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 ("MATS") for power plants will reduce

emissions from new and existing coal- and oil-fired electric utility steam generating units ("EGUs"). The EPA also signed revisions to the new source performance standards for fossil-fuel-fired EGUs. Such revisions revised the standards that new coal- and oil-fired power plants must meet for particulate matter, SO_2 and NO_x.

A review of existing emissions data confirms GRU's compliance with all of the new standards except for mercury. Adjustments were made to the control systems at Deerhaven 2 during the fall outage of 2011 and stack tests are scheduled for the second quarter of 2012 to determine if additional controls will be needed to comply with the new mercury standard.

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, SO_2 and NO_x emissions from utility sources. The states were to develop their regional haze implementation plans by December 2007, identifying the facilities that will have to reduce emissions and then set emissions limits for those facilities. However, states have not met that schedule and on January 15, 2009, the EPA published a notice finding that 37 states, the District of Columbia and the Virgin Islands failed to submit all or a portion of their regional haze implementation plans. The EPA's notice initiates a two-year period during which each jurisdiction must submit a haze implementation plan or become subject to a Federal Implementation Plan issued by the EPA that would set the basic program requirements. See "THE ELECTRIC SYSTEM – Energy Supply System – *Generating Stations – Deerhaven*" herein for a description of the actions that have been taken by the System to install additional emission control equipment at Deerhaven 2 and reduce SO_2 and NO_x emissions that potentially contribute to regional haze.

Recently, emissions modeling was completed for Deerhaven 1 to determine its impact on visibility in the Class I areas within 300 km of the DGS. Results of this modeling confirmed that Deerhaven 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 applies to Deerhaven 2. GRU has voluntarily requested a cap on SO_2 emissions, which provides Deerhaven 2 with an exemption from the RFP section. A draft permit from the FDEP was issued on June 1, 2012 approving GRU's requested cap on SO_2 emissions. [To be updated when permit becomes final – expected end of June 2011.]

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. None of the System's reciprocating engines are covered by this new rule.

Climate Change

Global Climate Change

The Kyoto Protocol prescribed reduction targets for the emission of CO_2 and other GHGs. Although the United States has not ratified the Kyoto Protocol, federal proposals were expected to be introduced to the United States Congress that would, if adopted, implement some form of regulation or taxation to reduce or

mitigate GHG emissions but, as of the date of this Official Statement, nothing is imminent. See "THE ELECTRIC SYSTEM – Future Power Supply" herein for a description of the System's efforts to meet the Kyoto Protocol's target GHG emission rates.

Federal Regulation

Control of GHGs such as CO_2 is receiving a great deal of attention within the United States. On April 2, 2007, the United States Supreme Court issued a decision in *Massachusetts v. Environmental Protection Agency*, 549 U.S. 497, holding that GHG emissions are "air pollutants" under the Clean Air Act requiring the EPA to determine whether GHGs pose a threat to health and welfare. On December 15, 2009, the EPA published the final rule for the "endangerment finding" under the Clean Air Act. In the finding, the EPA declared that the six identified GHGs – CO_2, methane, nitrous oxides, hydro-fluorocarbons, perfluorocarbons, and sulfur hexafluoride – cause or contribute to global warming, and that the effects of climate change endanger public health and welfare by increasing the likelihood of severe weather events and the other related consequences of climate change. The issuance of the "endangerment finding" triggered the statutory requirement that the EPA regulate emissions of GHGs as air pollutants from motor vehicles. Such regulations were finalized on April 1, 2010, when the EPA and the United States Department of Transportation issued a joint final rule imposing GHG emission standards on light-duty vehicles (cars and light trucks). That regulation took effect on January 2, 2011.

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

On May 13, 2010, the EPA issued a final rule for determining the applicability of the PSD program to GHG emissions from major sources. The rule, known as the "Tailoring Rule," establishes criteria for identifying facilities required to obtain PSD permits and the emissions thresholds at which permitting and other regulatory requirements apply. The applicability threshold levels established by this rule include both a mass-based calculation and a metric known as the carbon dioxide equivalent, or CO_2e, which incorporates the global warming potential for each of the six individual gases that comprise the collective GHG defined in the endangerment finding.

As of January 2, 2011, sources that are subject to PSD and/or Title V permits due to their non-GHG emissions (such as fossil-fuel based electric generating facilities for their NO_x, SO_2 and other emissions) will have to address GHG emissions in new permit applications or renewals. Construction or modification of major sources will become subject to PSD requirements for their GHG emissions if the construction or modification results in a net increase in the overall mass of GHG emissions exceeding 75,000 tons per year on a CO_2e basis. New and modified major sources required to obtain a PSD permit would be required to conduct a BACT review for their GHG emissions. The EPA intends to issue guidance before the end of 2010 on the technologies or operations that would constitute BACT for GHGs. With respect to Title V requirements, as of January 2, 2011, sources that are required to have Title V permits for non-GHG pollutants will be required to address GHGs as part of their Title V permitting. The 75,000 tons per year CO_2e applicability threshold does not apply, so when any source applies for, renews, or revises a Title V permit, then Clean Air Act requirements for monitoring, recordkeeping and reporting will be included.

On October 30, 2009, the EPA published the final rule for mandatory monitoring and annual reporting of GHG emissions from various categories of facilities including fossil fuel suppliers, industrial gas suppliers, direct GHG emitters (such as electric generating facilities and industrial processes), and manufacturers of

heavy-duty and off-road vehicles and engines. This rule does not require controls or limits on emissions, but requires data collection beginning January 1, 2010. The System's costs of compliance with these new regulations are not fully known at this time. The requirements for monitoring, reporting and record keeping with respect to GHG emissions from existing units should not have a material adverse effect, based on the System's understanding of the rules at this time. GRU timely submitted its 2010 and 2011 annual reports of GHG emissions.

In addition to legislative and regulatory activities, and the *Massachusetts v. Environmental Protection Agency* case, many of the issues raised by global climate change are being litigated in courts throughout the United States. Other recent litigation addresses the extent to which a reviewing federal agency must consider the impact of GHG emissions in the National Environmental Policy Act environmental review process. The System cannot currently predict how GHG emissions issues will arise in connection with pending or future permit proceedings or whether litigation based on climate change issues will adversely affect the System's construction and development plans.

On March 27, 2012, the EPA proposed a rule entitled, "Carbon Pollution Standard for New Power Plants." The proposed rule would apply only to new fossil-fuel-fired EGUs. For purposes of this rule, fossil-fuel-fired EGUs include fossil-fuel-fired-boilers, integrated gasification combined cycle units and stationary combined cycle turbine units that generate electricity for sale and are larger than 25 MW. This rule has no immediate effect on GRU's facilities or on the proposed GREC biomass facility.

Coal Ash

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

Under the first proposed regulatory option, the EPA would list coal ash destined for disposal in landfills or surface impoundments as "special wastes" subject to regulation under Subtitle C of RCRA. Subtitle C regulations set forth the EPA's hazardous waste regulatory program, which regulate the generation, handling, transport and disposal of wastes. The proposed rule would create a new category of waste under Subtitle C, so that coal ash would not be classified as a hazardous waste, but would be subject to many of the regulatory requirements applicable to such wastes. Under this option, coal ash would be subject to technical and permitting requirements from the point of generation to final disposal. Generators, transporters, and treatment, storage and disposal facilities would be subject to federal requirements and permits. The EPA is considering imposing disposal facility requirements such as liners, groundwater monitoring, fugitive dust controls, financial assurance, corrective action, closure of units, and post-closure care. This first option also proposes requirements for dam safety and stability for surface impoundments, land disposal restrictions, treatment standards for coal ash, and a prohibition on the disposal of treated coal ash below the natural water table. The first option would not apply to certain beneficial reuses of coal ash.

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

The proposed rule also states that the EPA is considering listing coal ash as a hazardous substance under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended

("CERCLA," which is commonly known as "Superfund"), and includes proposals for alternative methods to adjust the statutory reportable quantity for coal ash. The extension of CERCLA to coal ash could significantly increase the System's liability for cleanup of past and future coal ash disposal.

The EPA has not decided which regulatory approach it will take with respect to the management and disposal of coal ash. The System is therefore unable to determine the effects of this proposed rule at this time.

Storage Tanks

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

March 2011 Events in Japan

On March 11, 2011, a major earthquake and tsunami struck Japan and caused substantial damage to the nuclear generating units at the Fukushima Daiichi generating plant. The Fukushima Daiichi units have been stabilized and, based on recent published reports, the Japanese government indicates that the units at the site have been brought to a state of cold shutdown.

In April 2011, August 2011, and November 2011, a number of environmental groups filed petitions with the NRC requesting the delay of ongoing NRC regulatory and licensing activities in order to address the "lessons learned" from the events at the Fukushima Daiichi generating plant. The April and August petitions have been denied by the NRC. The November petition has not been resolved by NRC.

The NRC formed a task force to examine its regulatory requirements, programs, processes and implementation in light of information from the Fukushima Daiichi site. The NRC task force published its report on July 12, 2011. The task force's report (the "NRC Fukushima Task Force Report") concluded that the current regulatory approach ensures the protection of public health and safety and therefore operation and licensing activities should continue without delay. The NRC Fukushima Task Force Report also provided twelve overarching recommendations for clarifying and strengthening the regulatory framework and improving the effectiveness of the NRC's programs. Subsequent to this report, the NRC staff has completed several actions in response to these recommendations. In September 2011, the NRC staff issued a paper that provided recommended actions to be taken without delay from the NRC Fukushima Task Force Report. This review was followed by a paper in October 2011 that provided prioritization of recommended actions to be taken in response to the Fukushima lessons learned. The prioritization recommendations were provided to: (1) reflect regulatory actions to be taken, (2) identify implementation challenges, (3) include technical and regulatory bases, (4) identify additional recommendations and (5) include a schedule and milestones with recommendations for engagement of stakeholders. The recommendations identified priority items associated with seismic and flooding reevaluations, stations blackout actions, reliable hardened vents for Mark I and Mark II containments, spent fuel pool instrumentation, emergency preparedness procedures and actions and severe accident mitigation guidelines. The impact of any of these changes in regulation, programs and process of the NRC as a result of these task force recommendations on the operation or costs of CR-3 cannot be determined at this time.

PEF has reported that CR-3 is located 30.5 feet above sea level and has watertight doors that make it resistant up to 40.5 feet from storm surges. In addition, PEF has reported that CR-3 has diesel and battery operated backup generators to run pumps if flooding were to occur and fuel for the generators is protected underground. CR-3 is located in an area with a low risk of earthquakes.

Nuclear Waste Disposal Regulation

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

Nuclear Decommissioning

The NRC has promulgated regulations mandating the establishment of funded reserves to assure financial capability for the eventual decommissioning of licensed nuclear facilities. The System and several other municipal utilities have entered into an agreement with FMPA wherein FMPA has engaged a fiduciary to act as trustee of the reserve to fund the participants' share of decommissioning CR-3. The external fund is accruing from revenues in amounts currently estimated to be sufficient to pay for decommissioning costs. However, actual decommissioning costs may vary due to changes in the assumed dates of decommissioning, NRC funding requirements, regulatory requirements, costs of labor and equipment or other assumptions used in determining the estimates.

Superfund and Remediation Sites

CERCLA, as well as parallel state statutes, require cleanup of sites from which there has been a release or threatened release of hazardous substances and authorizes the EPA to take any necessary response action at Superfund sites, including ordering PRPs liable for the release to take or pay for such actions. PRPs are broadly defined under CERCLA to include past and present owners and operators of, as well as generators of wastes sent to, a site. The System is a PRP at the Bill Johns Waste Oil Site in Jacksonville, Florida under these statutes. The System's liability at this site was incurred through the improper management of waste oils by operators providing services under contract to the System. The System is no more than a "de minimis" party at this site and has already resolved its liability with the EPA and is currently working with the State to resolve State liability issues.

The System also was a PRP at the following sites: Rose Chemical in Holden, Missouri; Peak Oil in Tampa, Florida; PCB Treatment, Inc. in Kansas City, Missouri; Osage Metals in Kansas City, Missouri; and Mowbray Engineering in Greenville, Alabama. The System's liability for these sites has been resolved through settlements reached with the EPA and, in the case of Rose Chemical, the Rose Chemical Steering Committee. The Georgia Environmental Protection Department has asserted that the System is a PRP at the Holley Electric site in Jesup, Georgia ("Holley Electric"). At this time, the System's liability at this site is not clear as information developed to date indicates that the System's wastes handled by Holley Electric were properly disposed of at another, unrelated site. The System is voluntarily participating in a PRP group to conduct certain investigations to clarify its status. Management does not anticipate that the System's liability for this site, if any, will be more than "de minimis."

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

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

See "THE NATURAL GAS SYSTEM – Manufactured Gas Plant" and "THE WATER SYSTEM – Water Treatment and Supply" herein for a discussion of other remediation issues.

Water Use Restrictions

Pursuant to Florida law, a water management district in Florida may mandate restrictions on water use for non-essential purposes when it determines such restrictions are necessary. The restrictions may either be temporary or permanent. The 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.

Wholesale and Retail Electric Restructuring

Energy Policy Act of 1992

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

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

FERC Transmission Initiatives

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

(respectively) in February and December 2007 and June 2008, FERC reaffirmed and modified the requirements under Order Nos. 888 and 888-A, specifically, by modifying the transmission tariff provisions on (among other things) calculating available transfer capability, transmission planning, point-to-point transmission service options, energy imbalance service, rollover rights for long-term firm transmission service, and the price caps on capacity reassignments. Under the reciprocity requirement adopted in Order No. 888 and reaffirmed in Order No. 890, non-jurisdictional utilities (such as the System) must provide comparable transmission service as a condition of receiving service from jurisdictional utilities under the pro forma tariff. The System offers reciprocal transmission services and TEA is a separate marketing organization which allows the System to comply with these orders.

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

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

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

Energy Policy Act of 2005

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

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

The 2005 Energy Policy Act empowered FERC to enforce mandatory compliance with the Bulk Electric System reliability standards. FERC delegated policy enforcement and standard development to NERC who, in turn, delegated regional enforcement and monitoring to the FRCC in the State to become the ERO monitoring the System's compliance. The standards of compliance with the new ERO have begun a process of rapid development and change and the System is carefully keeping up with these developments to assure full compliance.

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

- Balancing Authority
- Distribution Provider
- Generation Owner
- Generation Operator
- Interchange Authority
- Load Serving Entity
- Planning Authority
- Resource Planner
- Transmission Owner
- Transmission Operator
- Transmission Planner

Electric utilities registered as a Balancing Authority or Transmission Operator are required to undergo an on-site audit for compliance with the reliability standards once every three years. The System is registered as both a Balancing Authority and a Transmission Owner and is therefore subject to the 3-year on-site audit cycle. From December 12, 2011 through December 15, 2011, 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. FRCC found no violations pursuant to this audit. GRU's next on-site reliability compliance audit will be in 2015.

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

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

INSURANCE

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

Under federal law now in effect pursuant to an amendment to the Atomic Energy Act enacted into law on August 28, 1988 (the "Price Anderson Act"), the public liability that may arise from a single nuclear incident is limited to the maximum amount of "financial protection" required of the licensees of a nuclear generating facility. "Financial protection" required is determined by reference to (x) the amount of private liability insurance licensees are required to maintain by the NRC, (y) the maximum amount that licensees may be assessed under an industry-wide retrospective premium program prescribed by the Atomic Energy Act and (z) the number of facilities licensed by the NRC. The Price Anderson Act provides for "financial protection,"

and thus a public liability limit in respect of a single nuclear incident, in an amount equal to approximately $12.6 billion (effective January 1, 2010, and based on 104 licensed nuclear reactors) for all persons who may be liable in respect thereof, subject to further increases to reflect the effect of (i) inflation, (ii) the licensing for operation of additional nuclear reactors, and (iii) any increases in the amount of commercial liability insurance required to be maintained by the NRC. Public liability claims from an insured nuclear incident that exceed $375 million (currently available through commercial insurers) would be covered by a required pro-rata assessment under the retrospective rating program equal to $111.9 million per licensed nuclear reactor per occurrence (subject to an annual payment limit of $17.5 million per reactor). Under these provisions, the City's share (based on its 1.4079% ownership interest in CR-3) of the maximum potential assessment under the retrospective premium program would be approximately $1,575,440 per incident but would be limited to approximately $246,382 per year for each such incident (in each case assuming that the other CR-3 participants were to contribute their respective shares of such assessments). In addition, if the funds provided by the retrospective rating program and primary insurance were to be insufficient to satisfy public liability claims and legal costs arising from a single nuclear incident, the licensees of each nuclear reactor would be subject to a surcharge of up to 5% of the retrospective premium then applicable to satisfy such claims and costs. Under this eventuality, the City's additional share would be limited to approximately $11,000. Retrospective premiums are payable by the CR-3 participants irrespective of the location of the nuclear incident and the number of nuclear incidents that occur in any year (albeit subject to the $17,500,000 annual limit for each incident). According to information provided by PEF as principal owner of CR-3, the City's ownership interest in CR-3 is covered by various insurance policies maintained by PEF. In accordance with the provisions of the System's participation agreement with PEF, PEF is required to name the System as an additional named insured on all insurance policies relating to CR-3. Under this arrangement, the System pays insurance premiums and maintains liability coverage based on its 1.4079% interest in CR-3. NEIL provides primary coverage for property damage at CR-3 in an amount equal to $500 million. In addition to primary coverage, NEIL also provides decontamination, premature decommissioning and excess property insurance in the amount of $1.750 billion, resulting in total nuclear decontamination, premature decommissioning and property damage coverage of $2.250 billion.

Insurance coverage against incremental costs of replacement power resulting from prolonged accidental outages at nuclear generating units is also provided through membership in NEIL. PEF is insured thereunder, following a twelve-week deductible period, for 52 weeks in the amount of $4.5 million per week at the CR-3 plant. An additional 71 weeks of coverage is provided at 80% of the above weekly amount. For the current policy period, PEF is subject to retrospective premium assessments of up to approximately $7.4 million with respect to the primary coverage, $10.3 million with respect to the decontamination, decommissioning and excess property coverage, and $6.0 million for the incremental replacement power costs coverage, in the event covered losses at insured facilities exceed premiums, reserves, reinsurance and other NEIL resources. Pursuant to regulations of the NRC, PEF's property damage insurance policies provide that all proceeds from such insurance be applied, first, to place the plant in a safe and stable condition after an accident and, second, to decontamination costs, before any proceeds can be used for decommissioning, plant repair or restoration. PEF is responsible to the extent losses may exceed limits of the coverage described above. The Florida municipal CR-3 participants, including the System, are not covered under this replacement power policy. The participants do have a capacity factor guarantee entered into as a result of the last extended outage of CR-3. The capacity factor guarantee covers the period January 1, 2002 through December 21, 2013 and provides that PEF will provide alternate energy or pay the participants for their replacement power when capacity delivered from CR-3 is less than 87.5% over any two-year evaluation period.

Under the NEIL policies, if there were multiple terrorism losses occurring within one year after the first loss from terrorism, NEIL would make available one industry aggregate limit of $3.2 billion, along with any amount it recovers from reinsurance, government indemnity or other sources up to the limit for each claimant. If terrorism losses occurred beyond the one-year period, a new set of limits and resources would apply. For nuclear liability claims arising out of terrorist acts, the primary level through commercial insurers is now subject to an industry aggregate limit of $375 million. The second level of coverage obtained through the assessments discussed above would continue to apply to losses exceeding $375 million and would provide coverage in excess of any diminished primary limits due to terrorist acts.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel to the City ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2012 Series B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the 2012 Series B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel with respect to the 2012 Series B Bonds is set forth in APPENDIX G hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2012 Series B Bonds. The City has made certain representations and has covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2012 Series B Bonds will not be included in federal gross income. (See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Special Provisions Relating to 2012 Series B Bonds" in APPENDIX D hereto.) Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2012 Series B Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2012 Series B Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the 2012 Series B Bonds may adversely affect the value of, or the tax status of interest on, the 2012 Series B Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

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

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2012 Series B Bonds to be subject, directly or indirectly, 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. As one example, the Obama Administration recently announced a legislative proposal which, for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the 2012 Series B Bonds to some extent to taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the 2012 Series B Bonds. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the 2012 Series B Bonds. Prospective purchasers of the 2012 Series B Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2012 Series B Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the

future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2012 Series B Bonds ends with the issuance of the 2012 Series B Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the 2012 Series B Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the 2012 Series B Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2012 Series B Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

RATINGS

The 2012 Series B Bonds have received ratings of "[__]/[__]," "[__]/[__]" and "[__]/[__]" from S&P, Moody's and Fitch, respectively. An explanation of the significance of any rating or outlook may be obtained only from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007; Standard & Poor's, 55 Water Street, New York, New York 10041; and Fitch Ratings, One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its rating and outlook on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings or outlooks (if any) will be in effect for any given period of time or that such ratings or outlooks (if any) will not be revised upward or downward or withdrawn entirely by such rating agencies if, in the judgment of such agencies, circumstances so warrant. Any such downward revision or withdrawal of any ratings or outlooks (if any) may have an adverse effect on the market price of the 2012 Series B Bonds.

LITIGATION

There is no litigation or other proceeding pending or, to the knowledge of the City, threatened in any court, agency or other administrative body (either state or federal) restraining or enjoining the issuance, sale or delivery of the 2012 Series B Bonds, or in any way questioning or affecting (i) the proceedings under which the 2012 Series B Bonds are to be issued, (ii) the validity of any provision of the 2012 Series B Bonds or the Resolution, (iii) the pledge by the City of the Trust Estate under the Resolution, (iv) the legal existence of the City or (v) the authority of the City to own and operate the System and to set utility rates.

On November 22, 2011, a lawsuit was filed regarding the FIT program, specifically in regard to the initial and supplemental 2011 random FIT lotteries that were utilized to determine the award of FIT capacity contracts for the purchase of solar generated energy under the program. See "THE ELECTRIC SYSTEM – Future Power Supply – *Solar Feed-In-Tariff*" herein for a description of the FIT. The plaintiff in such action seeks a declaratory judgment, injunctive relief, and a writ of mandamus in regard to issues arising out of the initial and supplemental Solar FIT lotteries. Management believes that the System has valid defenses to the claims, and the System is vigorously defending such action. Due to the uncertainties of litigation, the System at this stage, cannot offer an opinion as to likely outcomes of the litigation or the effect thereof.

On April 19, 2012, a public advocacy group based in Gainesville filed a lawsuit against the City seeking, among other things, a declaratory judgment holding the GREC PPA to be void *ab initio*. See "THE ELECTRIC SYSTEM – Future Power Supply – *Gainesville Renewable Energy Center*" herein for a description of GREC and the GREC PPA. The plaintiff alleges that the negotiation by GRU staff and approval by the City Commission of the GREC PPA were conducted in violation of the Florida Government-in-the-Sunshine Law. Management believes that the System has valid defenses to the claims, and the System intends

to vigorously defend such action. GREC, LLC filed a motion for intervention in the lawsuit, which was granted on June 1, 2012. Due to the uncertainties of litigation, the System, at this stage, cannot offer an opinion as to likely outcomes of the litigation or the effect thereof, but the results of a brief preliminary investigation that has been conducted support Management's belief as to the potential success in the defense of this claim.

The System was the plaintiff in numerous actions against the Alachua County Property Appraiser and others challenging the constitutionality under State law of the assessment of ad valorem taxes against telecommunications assets of the System, including the assets used to provide Internet service, the fiber optic system and radio towers used for both governmental purposes and for leasing space to cellular communications providers. The litigation also involved the assessment against certain lands that are part of the DGS property. During the pendency of the litigation, the System, in accordance with Florida law, declined to pay the disputed taxes for tax years 2003 through 2006. On November 26, 2007, the Florida Supreme Court declined to take jurisdiction of the case, thereby leaving in place the taxation of the towers (and certain real property at the DGS) while remanding the issues of taxation of the Internet service and fiber optic assets to the trial court. Following additional proceedings in the trial court the System prevailed on the issues of taxation of both the Internet service and fiber optic assets. No appeal of the outcome was taken by the adverse parties. All taxes and interest accruing during the pendency of the case were paid. Management believes that future payment of the taxes upon the DGS property and the towers will not materially affect the financial condition of the System.

In addition to the actions discussed in the three preceding paragraphs, the System is party to various federal, state and local claims, proceedings and lawsuits for damages claimed to result from the operation of the System. Management does not believe that, individually or in the aggregate, these cases will materially adversely affect the Net Revenues of the System or materially adversely impair the business, operations, or financial condition of the System.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the 2012 Series B Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel to the City. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX G hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the City by Marion J. Radson, Esq., Gainesville, Florida, City Attorney. Certain legal matters will be passed upon for the Underwriter by Nixon Peabody LLP, New York, New York, Counsel to the Underwriter. Certain legal matters with respect to the Initial Liquidity Facility and the Bank will be passed upon for the Bank by Nixon Peabody LLP, New York, New York, counsel to the Bank.

INDEPENDENT AUDITORS

The financial statements of the System as of September 30, 2011 and 2010 and for the years then ended, included in APPENDIX B hereto, have been audited by Ernst & Young LLP, independent auditors, as stated in their report appearing therein.

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the 2012 Series B Bonds from the City at an aggregate discount of $_____ from the initial offering price thereof. The 2012 Series B Bonds may be offered and sold to certain dealers (including dealers depositing such Bonds into investment trusts) at prices lower than such public offering price, and such public offering price may be changed, from time to time, by the Underwriter. The Underwriter is JPMS.

[JPMS has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of

certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase 2012 Series B from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any 2012 Series B Bonds that such firm sells.]

FLORIDA SECURITIES LAWS

Florida law provides that securities issued by any state or any political subdivision thereof are subject to registration with the Florida Department of Banking and Finance, Division of Securities and Investor Protection, if the issuer is in default or has been in default at any time after December 31, 1975 as to principal and interest with respect to any obligation issued by such issuer, unless the offering circular contains full and fair disclosure concerning the circumstances of such default and financial statements of the issuer for the last two fiscal years. However, the issuer is not required to make such disclosures or include such financial statements if it in good faith believes that such information would not be considered material by a reasonable investor. There has been a default with respect to non-recourse industrial development bonds issued by the City on behalf of a private entity, by reason of nonpayment of debt service by the private entity. Such default is unrelated to the credit of the City or the System; therefore, the City does not consider that disclosures relating to such default are material to prospective purchasers of the 2012 Series B Bonds. In addition, the 2012 Series B Bonds are not secured by the full faith and credit and taxing power of the City; therefore, the City does not consider that disclosure of its financial statements (other than those with respect to the System) would be appropriate or material to prospective purchasers of the 2012 Series B Bonds.

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MISCELLANEOUS

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

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

CITY OF GAINESVILLE, FLORIDA

By /s/
General Manager for Utilities

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APPENDIX A

BOOK-ENTRY ONLY SYSTEM

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

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

Purchases of 2012 Series B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for such 2012 Series B Bonds on DTC's records. The ownership interest of each actual purchaser of each 2012 Series B Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2012 Series B Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2012 Series B Bonds, except in the event that use of the book-entry system for the 2012 Series B Bonds is discontinued.

SO LONG AS CEDE & CO. (OR ANY OTHER NOMINEE REQUESTED BY DTC) IS THE REGISTERED OWNER OF THE 2012 SERIES B BONDS AS NOMINEE FOR DTC, REFERENCES HEREIN TO THE HOLDERS OR REGISTERED OWNERS OR OWNERS OF THE 2012 SERIES B BONDS SHALL MEAN CEDE & CO. (OR SUCH OTHER NOMINEE), AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS.

To facilitate subsequent transfers, all 2012 Series B Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2012 Series B Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership.

DTC has no knowledge of the actual Beneficial Owners of the 2012 Series B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2012 Series B Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

The City, the Trustee, the Bond Registrar, the Paying Agent and, except as expressly provided in the Twenty-Fifth Supplemental Resolution, the Tender Agent may treat DTC (or its nominee) as the sole and exclusive owner of the 2012 Series B Bonds registered in its name for the purpose of: payment of the principal or redemption price of or interest on the 2012 Series B Bonds; selecting 2012 Series B Bonds and portions thereof to be redeemed; giving any notice permitted or required to be given to Holders under the Resolution including any notice of redemption or mandatory tender for purchase; registering the transfer of 2012 Series B Bonds; obtaining any consent or other action to be taken by Holders; and for all other purposes whatsoever, and shall not be affected by any notice to the contrary. The City, the Trustee, the Bond Registrar, the Paying Agent, the Underwriter (other than in its capacity, if any, as a Direct Participant or an Indirect Participant), the Remarketing Agent (other than in its capacity, if any, as a Direct Participant or an Indirect Participant) and, except as expressly provided in the Twenty-Fifth Supplemental Resolution, the Tender Agent shall not have any responsibility or obligation to any Direct Participant, any person claiming a beneficial ownership interest in the 2012 Series B Bonds under or through DTC or any Direct Participant, or any other person which is not shown on the registration books of the City (kept by the Bond Registrar) as being a Holder, with respect to: the accuracy of any records maintained by DTC or any Direct or Indirect Participant regarding ownership interests in the 2012 Series B Bonds; the payment by DTC or any Direct or Indirect Participant of any amount in respect of the principal or redemption price of or interest on the 2012 Series B Bonds; the delivery to any Direct or Indirect Participant or any Beneficial Owner of any notice which is permitted or required to be given to Holders under the Resolution including any notice of redemption or mandatory tender for purchase; the selection by DTC or any Direct or Indirect Participant of any person to receive payment in the event of a partial redemption of the 2012 Series B Bonds; or any consent given or other action taken by DTC as a Holder of the 2012 Series B Bonds.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2012 Series B Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the "record date." The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts securities, such as the 2012 Series B Bonds, are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

For so long as the 2012 Series B Bonds are issued in book-entry form through the facilities of DTC, any Beneficial Owner desiring to cause the City or the Trustee to comply with any of its obligations with respect to the 2012 Series B Bonds must make arrangements with the Direct Participant or Indirect Participant through whom such Beneficial Owner's ownership interest in the 2012 Series B Bonds is recorded in order for the Direct Participant in whose DTC account such ownership interest is recorded to make the request of DTC described above.

NEITHER THE CITY NOR THE TRUSTEE NOR THE BOND REGISTRAR NOR THE PAYING AGENT NOR THE UNDERWRITER (OTHER THAN IN ITS CAPACITY, IF ANY, AS A DIRECT PARTICIPANT OR AN INDIRECT PARTICIPANT) NOR THE TENDER AGENT NOR THE REMARKETING AGENT (OTHER THAN IN ITS CAPACITY, IF ANY, AS A DIRECT PARTICIPANT OR AN INDIRECT PARTICIPANT) WILL HAVE ANY OBLIGATION TO THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS AND THE PERSONS FOR WHOM THEY ACT RELATING TO THE MAKING OF ANY DEMAND BY CEDE & CO. AS THE REGISTERED OWNER OF THE 2012 SERIES B BONDS, THE ADHERENCE TO SUCH PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

Principal or redemption price of and interest on the 2012 Series B Bonds will be paid to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City, the Trustee or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the City, the Trustee or the Paying Agent, as the case may be, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal or redemption price and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent; disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

As long as the book-entry system is used for the 2012 Series B Bonds, the City, the Trustee or the Tender Agent, as applicable, will give or cause to be given any notice of redemption or mandatory tender for purchase or any other notices required to be given to Holders of 2012 Series B Bonds only to DTC. Any failure of DTC to advise any Direct Participant, or of any Direct Participant to notify any Indirect Participant, or of any Direct or Indirect Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the 2012 Series B Bonds called for such redemption, of the mandatory tender for purchase of such 2012 Series B Bonds, or of any other action premised on such notice.

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

As long as the book-entry system is used for the 2012 Series B Bonds, redemption notices and notices of mandatory tenders for purchase shall be sent only to DTC. If less than all of the 2012 Series B Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such 2012 Series B Bonds to be redeemed.

NEITHER THE CITY NOR THE TRUSTEE NOR THE BOND REGISTRAR NOR THE PAYING AGENT NOR THE TENDER AGENT NOR THE UNDERWRITER (OTHER THAN IN ITS CAPACITY, IF ANY, AS A DIRECT PARTICIPANT OR AN INDIRECT PARTICIPANT) WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DIRECT PARTICIPANTS, OR THE PERSONS FOR

WHOM THEY ACT AS NOMINEES, WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS.

Tender of 2012 Series B Bonds Under Book-Entry Only System. If a Beneficial Owner elects to tender all or a portion (in an Authorized Denomination) of its beneficial ownership interest in 2012 Series B Bonds subject to the book-entry only system for purchase as provided in the Resolution, such Beneficial Owner must make arrangements for the Direct Participant through whose DTC account such beneficial ownership interest is recorded (a) to give a timely notice of such election to tender to the Tender Agent and (b) to effect delivery of such beneficial ownership interest in the 2012 Series B Bonds on DTC's records to the Tender Agent. The requirement for physical delivery of 2012 Series B Bonds in connection with such an election to tender will be deemed satisfied only when the ownership rights in such 2012 Series B Bonds are transferred by Direct Participants on DTC's records.

The Twenty-Fifth Supplemental Resolution provides that, notwithstanding any provision therein to the contrary, so long as 2012 Series B Bonds are issued in book-entry only form as described above, every remarketing of such 2012 Series B Bonds (or portions thereof) by the Remarketing Agent therefor and all purchases and transfers of such 2012 Series B Bonds by the Tender Agent shall be conducted in accordance with the book-entry system of the securities depository therefor. Without limiting the generality of the foregoing, payment to a Beneficial Owner of the purchase price of 2012 Series B Bonds subject to the book-entry only system tendered or deemed tendered for purchase shall be made in accordance with such system, and shall be the responsibility of the Direct Participant or Indirect Participant through whom such Beneficial Owner acts and not of DTC, the City, the Paying Agent or the Tender Agent.

For every transfer and exchange of a beneficial ownership in the 2012 Series B Bonds, a Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

Discontinuation of the Book-Entry Only System. DTC may discontinue providing its services as depository with respect to the 2012 Series B Bonds at any time by giving reasonable notice to the City or the Trustee. In addition, if the City determines that (i) DTC is unable to discharge its responsibilities with respect to the 2012 Series B Bonds, or (ii) continuation of the system of book-entry only transfers through DTC is not in the best interests of the Beneficial Owners of the 2012 Series B Bonds or of the City, the City may, upon satisfaction of the applicable procedures of DTC with respect thereto, terminate the services of DTC with respect to the 2012 Series B Bonds. Upon the resignation of DTC or determination by the City that DTC is unable to discharge its responsibilities, the City may, within 90 days, appoint a successor depository. If no such successor is appointed or the City determines to discontinue the book-entry only system, 2012 Series B Bond certificates will be printed and delivered. Transfers and exchanges of 2012 Series B Bonds shall thereafter be made as provided in the Resolution.

If the book-entry only system is discontinued with respect to the 2012 Series B Bonds, the persons to whom 2012 Series B Bond certificates are delivered will be treated as "Holders" of Bonds for all purposes of the Resolution including without limitation the payment of principal, premium, if any, and interest on 2012 Series B Bonds, the redemption of 2012 Series B Bonds, and the giving to the City or the Trustee of any notice, consent, request or demand pursuant to the Resolution for any purpose whatsoever. In such event, interest on the 2012 Series B Bonds will be payable by check or draft of the Paying Agent mailed to such Holders at the addresses shown on the registration books maintained on behalf of the City (or, to the extent permitted by the Resolution, by wire transfer (see "THE 2012 SERIES B BONDS – General" in the Official Statement to which this APPENDIX A is attached)), and the principal and redemption price of all 2012 Series B Bonds will be payable at the principal corporate trust office of the Paying Agent.

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

material adverse changes in such information subsequent to the date of the Official Statement to which this APPENDIX A is attached.

APPENDIX B

[To Be Provided]

APPENDIX C

GENERAL INFORMATION REGARDING THE CITY OF GAINESVILLE AND ALACHUA COUNTY

Location

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

Organization and Administration

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

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

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

Population

As of April 2010, the United States Census Bureau reported the City's population to have been 124,354, while Alachua County's population was 247,336 and Florida's population was 18,801,310. The Bureau of Economic and Business Research at the University of Florida ("UF") estimated a 2011 population of 247,337 in Alachua County. As of April 2011, an estimated 124,379 persons resided within the City limits. The following tables depict official historical population growth of the City, Alachua County and the State of Florida.

Population Growth

Year	City of Gainesville Population	Percentage Increase	Alachua County Population	Percentage Increase	State of Florida Population	Percentage Increase
1940	13,757	-	38,607	-	1,897,414	-
1950	26,861	95.3%	57,026	47.7%	2,771,305	46.1%
1960	29,701	10.6	74,074	29.9	4,951,560	78.7
1970	64,510	117.2	104,764	41.4	6,791,418	37.2
1980	81,371	26.1	151,369	44.5	9,746,961	43.5
1990	85,075	4.6	181,596	20.0	12,937,926	32.7
2000	95,447	12.2	217,955	20.0	15,982,378	23.5
2010	124,354	30.3	247,336	13.5	18,801,310	17.6

Source: U. S. Census Bureau and Bureau of Economic and Business Research (UF).

Between 2000 and 2010, compound average annual growth rates for Gainesville, Alachua County and Florida were as follows:

	Compound Average Annual Growth Rate
Gainesville	2.68%
Alachua County	1.27
Florida	1.64

During the past decade, Alachua County's population has grown at about the same rate as the state's population. The City of Gainesville has increased its population at a faster rate largely due to a series of annexations of an area that was previously unincorporated. Alachua County has a younger population than Florida in general, with about 89% of Alachua County's residents under the age of 65 versus 83% of statewide residents being less than 65 years of age. These demographics, combined with Alachua County's employment characteristics, tend to make the local economy more stable than Florida as a whole.

Economy

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

The tables below display the size and composition of the area's employment and its major employers. This economic composition provides the strength and stability, which characterize the region's economy. Fluctuations in the national economy have but little impact on Alachua County's major employers. As a result, the County has one of the lowest unemployment rates in Florida. Local, state and national annual average unemployment rates for March 2012 from the U.S. Bureau of Labor Statistics are compared below.

	Unemployment Rates
Alachua County (local)	7.1%
Florida (state)	9.4
United States (national)	8.3

Non-Agricultural Employment Distribution
Gainesville Metropolitan Statistical Area – March 2012

Sector	Number Employed (in thousands)	Percentage of Total
Natural Resources, Mining and Construction	3.8	3.0%
Manufacturing	4.4	3.4
Trade, Transportation and Utilities	18.0	14.1
Information	1.5	1.2
Financial Activities	5.8	4.5
Professional and Business Services	10.7	8.4
Education and health Services	22.3	17.4
Leisure and Hospitality	13.5	10.5
Other Services	4.4	3.4
Government	43.7	34.1
Total	128.1	100.0%

Source: State of Florida, Agency for Workforce Innovation, Current Employment Statistics, April 2012.

Major Employers in the Gainesville Area

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

Source: Gainesville Council for Economic Outreach (2008).

Educational Activity

UF is a major, public, comprehensive, land-grant, research university. It is Florida's largest university, the nation's fourth largest, and one of only 17 public, land-grant universities that belongs to the Association of American Universities. The UF campus covers 2,000 acres and includes more than 900 buildings. UF enrolls approximately 50,000 students annually, has 16 colleges and more than 150 research centers and institutes. It offers more than 100 undergraduate majors and almost 200 graduate programs, as well as professional degree programs in dentistry, law, medicine, pharmacy and veterinary medicine. UF was awarded $619 million in sponsored research in 2010-2011. Cultural facilities at UF include The Florida Museum of Natural History, the Harn Museum of Art, the Phillips Center for the Performing Arts, the University Auditorium, the Constans Theatre, and the Baughman Center. UF athletics have ranked among the nation's 10 best programs in each of the last 26 years. Florida has won a total of 25 team national championships, including national championships in football in 1996, 2006 and 2008, and national championships in men's basketball in 2006 and 2007.

Gainesville is also home to Santa Fe College ("SFC"), which is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools to award Associate and Baccalaureate degrees. More than 18,000 students take credit classes and 12,000 more take non-credit classes at SFC. In addition to its main Northwest Campus, SFC has six centers in Gainesville and surrounding communities offering courses or technical programs. Facilities of note on the main campus include the Santa Fe Gallery, the Kika Silva Pla Planetarium, and the Santa Fe Teaching Zoo. SFC completes intercollegiately in fastpitch softball, baseball, and men's and women's basketball. The baseball team finished second at the 2009 Junior College World Series. SFC's annual Spring Arts Festival attracts 130,000 visitors to Gainesville.

Medical Activity

Gainesville is a regional health care hub with four hospitals and nearly 2,000 practicing physicians and surgeons. North Florida Regional Medical Center ("NFRMC") is a 325 bed, full service medical and surgical acute care center. The Regional Doctors Office Park adjoins NFRMC and includes offices and clinics for over 258 physicians. The Veteran's Administration Hospital (the "VA") includes 222 beds. In September 2011, the VA added a 254,000 square foot five story tower called the Malcom Randall BA Medical Center Bed Tower that provides 256 private rooms and space for veterans and their family members. A 637 space parking garage was also constructed at the VA in 2011. The UF Health Science Center encompasses the 630 bed Shands Teaching Hospital, and the Colleges of Medicine, Nursing, Dentistry, and Health Related Professions. The Shands at UF Cancer Hospital is a 500,000 square foot facility with 192 private inpatient beds that began operation in November 2009.

Research and Development

The Innovation District is an area of approximately 80 acres between UF's campus and downtown Gainesville that is currently being transformed into an area of high urban density to house and support scientific research and development. The Innovation District currently is a mixture of low density office, commercial and residential uses, and includes the former Shands at Alachua General Hospital ("AGH") site. The former Shands at AGH hospital was demolished and the entire site is now called Innovation Square. UF has constructed a three-story building known as Innovation Hub on the site. Innovation Square forms the nucleus of the Innovation District and is a research-oriented development. The Innovation District ultimately is projected to be comprised of approximately 3.7 million square feet of lab, business, residential, commercial, and institutional space.

Industrial Activity

ALACHUA COUNTY
Largest Manufacturers

Name of Firm	Business	Number of Employees
Naylor Publications, Inc.[(1)]	Prints publications; computer graphics service	275
Regeneration Technologies, Inc.[(1)]	Manufactures surgical appliances & supplies	260
Gainesville Sun Publishing Co.[(1)]	Publishes & prints newspapers	250
Metal Container Corporation[(1)]	Cans metal	195
Exactech, Inc.[(1)]	Manufactures surgical implants	173
Sandvik Mining & Construction[(1)]	Manufactures core drills; manufactures oil field machinery & equipment	150
Waste Management[(1)]	Secondary nonferrous metals	130
Campus Communications, Inc.[(1)]	Publishes newspapers without printing	125
SiVance, LLC[(2)]	Manufactures industrial organic chemicals	120

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(1) Source: Gainesville Council for Economic Outreach (2008).
(2) Source: www.SiVance.com

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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

Definitions

The following are summaries of certain definitions in the Resolution:

Accreted Value means, as of any date of computation with respect to any Capital Appreciation Bond, an amount equal to the principal amount of such Bond plus the interest accrued on such Bond from the date of original issuance of such Bond to the periodic date specified in the Supplemental Resolution authorizing such Capital Appreciation Bond on which interest on such Bond is to be compounded (hereinafter in this definition, a "Periodic Compounding Date") next preceding the date of computation or the date of computation if a Periodic Compounding Date, such interest to accrue at the interest rate per annum of the Capital Appreciation Bonds set forth in the Supplemental Resolution authorizing such Bonds, compounded periodically on each Periodic Compounding Date, plus, if such date of computation shall not be a Periodic Compounding Date, a portion of the difference between the Accreted Value as of the immediately preceding Periodic Compounding Date (or the date of original issuance if the date of computation is prior to the first Periodic Compounding Date succeeding the date of original issuance) and the Accreted Value as of the immediately succeeding Periodic Compounding Date, calculated based upon an assumption that, unless otherwise provided in the Supplemental Resolution authorizing such Capital Appreciation Bonds, Accreted Value accrues in equal daily amounts on the basis of a year of twelve 30-day months.

Accrued Aggregate Debt Service means, as of any date of calculation, an amount equal to the sum of (a) the amounts of accrued Debt Service with respect to all Series of Bonds, calculating the accrued Debt Service with respect to each Series at an amount equal to the sum of (i) interest on the Bonds of such Series accrued and unpaid and to accrue to the end of the then current calendar month, and (ii) Principal Installments due and unpaid and that portion of the Principal Installments for such Series next due which would have accrued (if deemed to accrue in the manner set forth in the definition of Debt Service) to the end of such calendar month; *provided, however*, that (i) there shall be excluded from the calculation of Accrued Aggregate Debt Service any Principal Installments which are Refundable Principal Installments, (ii) the principal and interest portions of the Accreted Value of Capital Appreciation Bonds or the Appreciated Value of Deferred Income Bonds shall be included in the calculation of Accrued Aggregate Debt Service at the times and in the manner provided in the Resolution and (iii) if the calculation of the Debt Service Reserve Requirement for any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund takes into account Accrued Aggregate Debt Service, then, for purposes of such calculation, Accrued Aggregate Debt Service shall be calculated only with respect to the Bonds of the Series secured thereby and (b) the amounts of accrued Debt Service with respect to all Parity Hedging Contract Obligations.

Act means the Charter of the City, being Chapter 90-394, Laws of Florida, 1990, as amended, and other applicable provisions of law which, together with the Resolution, authorizes the City to issue its Bonds.

Adjusted Aggregate Debt Service for any period means, as of any date of calculation, the Aggregate Debt Service for such period except that (a) if any Refundable Principal Installment for any Series of Bonds is included in Aggregate Debt Service for such period, Adjusted Aggregate Debt Service shall mean Aggregate Debt Service determined (i) in the case of Refundable Principal Installments other than Parity Commercial Paper Notes and Parity Medium-Term Notes as if each such Refundable Principal Installment had been payable, over a period extending from the due date of such Principal Installment through the later of (x) the 30th anniversary of the issuance of such Series of Bonds or (y) the 10th anniversary of the due date of such Refundable Principal Installment, in installments which would have required equal annual payments of principal and interest over such period and (ii) in the case of Refundable Principal Installments relating to Parity Commercial Paper Notes or Parity Medium-Term Notes, in accordance with the then current Commercial Paper Payment Plan or Medium-Term Note Payment Plan, as applicable, with respect thereto and (b) the principal and interest portions of the Accreted Value of Capital Appreciation Bonds or the Appreciated Value of Deferred Income Bonds shall be included in the calculation of Adjusted Aggregate Debt Service at the times and in the manner provided in the Resolution. Interest deemed payable in any Fiscal Year after the actual due date of any Refundable Principal Installment of any Series of Bonds shall be calculated at such rate of interest as the City, or a banking or financial institution selected by the City, determines would be a reasonable estimate of the rate of interest that would be borne on Bonds maturing at the times determined in accordance with the provisions of the preceding sentence.

Aggregate Debt Service for any period means, as of any date of calculation, the sum of (a) the amounts of Debt Service for such period with respect to all Series of Bonds; *provided, however,* that (i) for purposes of estimating Aggregate Debt Service for any future period (X) any Variable Rate Bonds Outstanding during such period shall be assumed to bear interest during such period at the greater of (1) the actual rate of interest then borne by such Variable Rate Bonds or (2) the Certified Interest Rate applicable thereto and (Y) any Option Bonds Outstanding during such period shall be assumed to mature on the stated maturity date thereof and (ii) the principal and interest portions of the Accreted Value of Capital Appreciation Bonds or the Appreciated Value of Deferred Income Bonds shall be included in the calculation of Aggregate Debt Service at the times and in the manner provided in the Resolution; and *provided, further*, that if the calculation of the Debt Service Reserve Requirement for any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund takes into account Aggregate Debt Service, then, for purposes of such calculation, Aggregate Debt Service shall be calculated only with respect to the Bonds of the Series secured thereby and (b) the amounts of Debt Service for such period with respect to all Parity Hedging Contract Obligations.

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

Appreciated Value means with respect to any Deferred Income Bond, (i) as of any date of computation prior to the Current Interest Commencement Date therefor, an amount equal to the principal amount of such Bond plus the interest accrued on such Bond from the date of original issuance of such Bond to the periodic date specified in the Supplemental Resolution authorizing such Deferred Income Bond on which interest on such Bond is to be compounded (hereinafter in this definition, a "Periodic Compounding Date") next preceding the date of computation or the date of computation if a Periodic Compounding Date, such interest to accrue at the interest rate per annum of the Deferred Income Bonds set forth in the Supplemental Resolution authorizing such Bonds, compounded periodically on each Periodic Compounding Date, plus, if such date of computation shall not be a Periodic Compounding Date, a portion of the difference between the Appreciated Value as of the immediately preceding Periodic

Compounding Date (or the date of original issuance if the date of computation is prior to the first Periodic Compounding Date succeeding the date of original issuance) and the Appreciated Value as of the immediately succeeding Periodic Compounding Date, calculated based upon an assumption that, unless otherwise provided in the Supplemental Resolution authorizing such Deferred Income Bond, Appreciated Value accrues in equal daily amounts on the basis of a year of twelve 30-day months and (ii) as of any date of computation on and after the Current Interest Commencement Date, the Appreciated Value on the Current Interest Commencement Date.

Bond or *Bonds* means any bonds, notes or other evidences of indebtedness, as the case may be, authenticated and delivered under and Outstanding pursuant to the Resolution (including Parity Commercial Paper Notes, Parity Medium-Term Notes and Parity Reimbursement Obligations) but shall not mean Parity Hedging Contract Obligations or Subordinated Indebtedness.

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

Certified Interest Rate means, with respect to Commercial Paper Notes, Medium-Term Notes or the Variable Rate Bonds of a particular Series maturing on a particular date, the interest rate set forth in a certificate of an Authorized Officer of the City executed on or prior to the date of the initial issuance of such Commercial Paper Notes, Medium-Term Notes or Variable Rate Bonds of such Series, as the case may be, which interest rate shall be (i) in the case of Variable Rate Bonds, the rate of interest such Variable Rate Bonds would bear (based on the Bond Buyer Revenue Bond Index) if, assuming the same maturity date, terms and provisions (other than interest rate) as the proposed Variable Rate Bonds of such maturity, and on the basis of the City's credit ratings with respect to the Bonds (other than Bonds for which credit enhancement is provided by a third party), such proposed Variable Rate Bonds of such maturity were issued at a fixed interest rate or (ii) in the case of Commercial Paper Notes or Medium-Term Notes, the rate of interest such Commercial Paper Notes or Medium-Term Notes would bear (based on the Bond Buyer Revenue Bond Index) if such Notes were issued as Bonds bearing a fixed interest rate. If at such time of issuance of such Commercial Paper Notes, Medium-Term Notes or Variable Rate Bonds of a particular Series, the Bond Buyer Revenue Bond Index is no longer published, the City shall use a comparable published index accepted by the municipal bond market

Commercial Paper Note shall mean any Bond which (a) has a maturity date which is not more than 397 days after the date of issuance thereof and (b) is designated as a Commercial Paper Note in the Supplemental Resolution of the City authorizing such Bond.

Commercial Paper Payment Plan means, with respect to any Series of Commercial Paper Notes and as of any time, the then current Commercial Paper Payment Plan for such notes contained in a certificate of an Authorized Officer of the City delivered on or prior to the date of the first issuance of such Commercial Paper Notes and setting forth the sources of funds expected to be utilized by the City to pay the principal of and interest on such Commercial Paper Notes or any subsequent certificate of an Authorized Officer of the City thereafter executed to reflect changes, if any, in the expectations of the City with respect to the sources of funds to be utilized to pay principal of and interest on such Commercial Paper Notes; *provided, however,* that if any Commercial Paper Payment Plan provides for the refunding of any Commercial Paper Note with proceeds of (a) Bonds other than Commercial Paper Notes or Medium-Term Notes or (b) Subordinated Indebtedness, in either such case, that the City intends to pay from Revenues, the principal of such Commercial Paper Note shall, for purposes of the Commercial Paper Payment Plan, be assumed to come due over a period commencing with the due date of the Commercial Paper Note and ending not later than the later of (x) the 30th anniversary of the first

issuance of Commercial Paper Notes of such Series or (y) the 10th anniversary of the due date of the Commercial Paper Note to be refunded, in installments such that the principal and interest payable on such Commercial Paper Note in each Fiscal Year in such period will be equal to the principal and interest payable on such Commercial Paper Note in each other Fiscal Year in such period.

Cost of Acquisition and Construction means the City's costs, expenses and liabilities paid or incurred or to be paid or incurred by the City in connection with the planning, engineering, designing, acquiring, constructing, installing, financing, operating, maintaining, retiring, decommissioning and disposing of the System or any part thereof and the obtaining of all governmental approvals, certificates, permits and licenses with respect thereto, including, but not limited to, any good faith or other similar payment or deposits required in connection with the purchase of such part of the System, the cost of acquisition by or for the City of real and personal property or any interests therein, costs of physical construction of such part of the System and costs of the City incidental to such construction or acquisition, the cost of acquisition of fuel or fuel inventory or facilities for the production or transportation of fuel and working capital and reserves therefor and working capital and reserves for reload fuel and for additional fuel inventories, all costs relating to such part of the System, the cost of any indemnity or surety bonds and premiums on insurance, preliminary investigation and development costs, engineering fees and expenses, contractors' fees and expenses, the costs of labor, materials, equipment and utility services and supplies, legal and financial advisory fees and expenses, interest and financing costs, including, without limitation, bank commitment and letter of credit fees, bond insurance and indemnity premiums, discounts to the underwriters or other purchasers thereof, if any, amounts required to be paid under any interest rate exchanges or swaps, cash flow exchanges, options, caps, floors or collars, in each case made in connection with the issuance of Bonds, Subordinated Indebtedness or other evidences of indebtedness of the City relating to the System, payments under any Qualified Hedging Contract, fees and expenses of the Fiduciaries, administration and general overhead expense and costs of keeping accounts and making reports required by the Resolution prior to or in connection with the completion of construction of such part of the System, amounts, if any, required by the Resolution to be paid into the Debt Service Fund to provide, among other things, for interest accruing on Bonds and to provide for the Debt Service Reserve Requirement or to be paid into the Utilities Plant Improvement Fund or for payments when due (whether at the maturity of principal or the due date of interest or upon redemption) on any indebtedness of the City, including notes and Subordinated Indebtedness, incurred in respect of any of the foregoing, amounts, if any, required by a Supplemental Resolution to be paid into the Rate Stabilization Fund, and amounts required for working capital for the System and reserves therefor, and all federal, state and local taxes and payments in lieu of taxes legally required to be paid in connection with any part of the System and shall include reimbursements to the City for any of the above items theretofore paid by or on behalf of the City. It is intended that this definition be broadly construed to encompass all costs, expenses and liabilities of the City related to the System which on the date of the Resolution or in the future shall be permitted to be funded with the proceeds of Bonds pursuant to the provisions of Florida law.

Credit Enhancement means, with respect to any Bonds of a Series, the issuance of an insurance policy, letter of credit, surety bond or any other similar obligation, whereby the issuer thereof becomes unconditionally obligated to pay when due, to the extent not paid by the City or otherwise, the principal of and interest on such Bonds.

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

Credit Obligation means any obligation of the City to make payments out of Revenues for property, services or commodities whether or not the same are made available, furnished or received.

Current Interest Commencement Date means, with respect to any particular Deferred Income Bonds, the date specified in the Supplemental Resolution authorizing such Bonds (which date must be prior to the maturity date for such Bonds) after which interest accruing on such Bonds shall be payable periodically on dates specified in such Supplemental Resolution, with the first such payment date being the first such periodic date immediately succeeding such Current Interest Commencement Date.

Debt Service for any period means, as of any date of calculation (a) with respect to any Series of Bonds, an amount equal to the sum of (i) interest accruing during such period on Bonds of such Series, except to the extent that such interest is to be paid from deposits into the Debt Service Account in the Debt Service Fund made from the proceeds of Bonds, Subordinated Indebtedness or other evidences of indebtedness of the City (including amounts, if any, transferred thereto from the Construction Fund) and (ii) that portion of each Principal Installment for such Series which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such Series (or, (x) in the case of Bonds other than Parity Reimbursement Obligations, if (1) there shall be no such preceding Principal Installment due date or (2) such preceding Principal Installment due date is more than one year prior to the due date of such Principal Installment, then, from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Bonds of such Series, whichever date is later, and (y) in the case of Parity Reimbursement Obligations, in accordance with the terms thereof and the Supplemental Resolution authorizing such Parity Reimbursement Obligations), except to the extent that such Principal Installment is paid or to be paid from the proceeds of Bonds, Subordinated Indebtedness or other evidences of indebtedness of the City and (b) with respect to each Parity Hedging Contract Obligation, an amount equal to the sum of all amounts owed thereunder by the City during such period. Such interest and Principal Installments for such Series of Bonds shall be calculated on the assumption that (x) no Bonds (except for Option Bonds actually tendered for payment prior to the stated maturity thereof and paid, or to be paid, from Revenues) of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof, (y) the principal amount of Option Bonds tendered for payment before the stated maturity thereof and paid, or to be paid, from Revenues, shall be deemed to accrue on the date required to be paid pursuant to such tender and (z) the principal and interest portions of the Accreted Value of Capital Appreciation Bonds or the Appreciated Value of Deferred Income Bonds shall be included in the calculation of Debt Service at the times and in the manner provided in the Resolution; *provided, however*, that if the calculation of the Debt Service Reserve Requirement for any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund takes into account Debt Service, then, for purposes of such calculation, Debt Service shall be calculated only with respect to the Bonds of the Series secured thereby. If the City has in connection with any such Bonds entered into a Qualified Hedging Contract which provides that, in respect of a notional amount equal to the Outstanding principal amount of such Bonds, the City is to pay to a Qualified Hedging Contract Provider an amount determined based upon a variable rate of interest and the Qualified Hedging Contract Provider is to pay to the City an amount determined based upon a fixed rate of interest equal to the rate or rates at which such Bonds bear interest, it will be assumed that such Bonds bear interest at the variable rate of interest to be paid by the City. If the City has in connection with any Variable Rate Bonds, Parity Commercial Paper Notes or Parity Medium-Term Notes entered into a Qualified Hedging Contract which provides that, in respect of a notional amount equal to the Outstanding principal amount of the Variable Rate Bonds, Parity Commercial Paper Notes or Parity Medium-Term Notes, the City is to pay to a Qualified Hedging Contract Provider an amount determined based upon a fixed rate of interest and the Qualified Hedging Contract Provider is to pay to the City an amount determined based upon a variable rate of interest equal or comparable to the rate at which such Variable Rate Bonds, Parity Commercial Paper Notes or Parity Medium-Term Notes bear interest, it will be assumed that such Variable Rate Bonds, Parity Commercial Paper Notes or Parity Medium-Term Notes bear interest at the fixed rate of interest to be paid by the City.

Debt Service Reserve Requirement means with respect to each subaccount, if any, in the Debt Service Reserve Account, the amount specified in the Supplemental Resolution pursuant to which such subaccount shall be established; *provided, however*, that if at any time the City at its option shall have established one or more Reserve Deposits in connection with the issuance of any Additionally Secured Series of Bonds, the Debt Service Reserve Requirement for such Additionally Secured Series of Bonds as of any date of calculation shall be reduced by an amount equal to the sum of all Reserve Deposits not due and payable in such current or future Fiscal Year to which the calculation relates. For purposes of the foregoing calculation, it shall be assumed that Variable Rate Bonds will bear interest during such period at the greater of (i) the actual rate of interest then borne by such Bonds or (ii) the Certified Interest Rate applicable thereto.

Defeasance Securities means, unless otherwise provided with respect to the Bonds of a Series in the Supplemental Resolution authorizing such Bonds,

(a) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, and any certificates or any other evidences of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this clause (a), in any such case, which shall not be subject to redemption prior to their maturity other than at the option of the holder thereof or as to which an irrevocable notice of redemption of such securities on a specified redemption date has been given and such securities are not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof,

(b) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (A) which are (x) not callable prior to maturity or (y) as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (B) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (a) hereof which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (C) as to which the principal of and interest on the bonds and obligations of the character described in clause (a) hereof which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (b) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (A) of this clause (b), as appropriate, and any certificates or any other evidences of an ownership interest in obligations or specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this clause (b),

(c) obligations of any state of the United States of America or any political subdivision thereof or any agency or instrumentality of any state or political subdivision which are not callable for redemption prior to maturity, or which have been duly called for redemption by the obligor on a date or dates specified and as to which irrevocable instructions have been given to a trustee in respect of such obligations by the obligor to give due notice of such redemption on such date or dates, which date or dates shall also be specified in such instructions, and which shall be rated in the highest whole rating category by two nationally recognized rating agencies,

(d) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by a nationally recognized rating agency in its highest rating category, and by at least one other nationally recognized rating agency in either of its two highest rating categories, for comparable types of debt obligations so long as such securities evidence ownership of the right to payments of principal and/or interest on obligations described in clauses (a) and (b) hereof or obligations described in the foregoing clause (c), in any such case, which shall not be subject to redemption prior to their maturity other than at the option of the holder thereof or as to which an irrevocable notice of redemption of such obligations on a specified redemption date has been given and such obligations are not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof,

(e) deposits in interest-bearing time deposits or certificates of deposit which shall not be subject to redemption or repayment prior to their maturity or due date other than at the option of the depositor or holder thereof or as to which an irrevocable notice of redemption or repayment of such time deposits or certificates of deposit on a specified redemption or repayment date has been given and such time deposits or certificates of deposit are not otherwise subject to redemption or repayment prior to such specified date other than at the option of the depositor or holder thereof, and which are fully secured by obligations described in clause (a) or clause (b) hereof to the extent not insured by the Federal Deposit Insurance Corporation, and

(f) upon compliance with the provisions of the Resolution, such securities (I) as are described in clause (a) of this definition and (II) as are described in clause (d) hereof so long as such securities evidence ownership of the right to payments of principal and/or interest on obligations described in clause (a) hereof, in each case, which are subject to redemption prior to maturity at the option of the issuer thereof on a specified date or dates.

Deferred Income Bonds means any Bonds issued under the Resolution as to which interest accruing prior to the Current Interest Commencement Date is (i) compounded periodically on dates specified in the Supplemental Resolution authorizing such Deferred Income Bonds and (ii) payable only at the maturity, earlier redemption or other payment thereof pursuant to the Resolution or the Supplemental Resolution authorizing such Bonds.

Investment Securities means and includes all securities, obligations or investments that, at the time, shall be permitted by Florida law for investment of the City's funds.

Medium-Term Note means any Bond which (a) has a maturity date which is more than 365 days, but not more than 15 years, after the date of issuance thereof and (b) is designated as a Medium-Term Note in the Supplemental Resolution of the City authorizing such Bond.

Medium-Term Note Payment Plan means, with respect to any installment of Medium-Term Notes and as of any time, the then current Medium-Term Note Payment Plan for such notes contained in a certificate of an Authorized Officer of the City delivered on or prior to the date of the first issuance of such Medium-Term Notes and setting forth the sources of funds expected to be utilized by the City to pay the principal of and interest on such Medium-Term Notes or any subsequent certificate of an Authorized Officer of the City thereafter executed to reflect changes, if any, in the expectations of the City with respect to the sources of funds to be utilized to pay principal of and interest on such Medium-Term Notes; *provided, however,* that if any Medium-Term Note Payment Plan provides for the refunding of any Medium-Term Note with proceeds of (a) Bonds other than Commercial Paper Notes or Medium-Term Notes or (b) Subordinated Bonds, in either such case, that the City intends to pay from Revenues, the principal of such Medium-Term Note shall, for purposes of the Medium-Term Note Payment Plan, be assumed to come due over a period commencing with the due date of the Medium-Term Note and ending

not later than the later of (x) the 30th anniversary of the first issuance of Medium-Term Notes of such Series or (y) the 10th anniversary of the due date of the Medium-Term Note to be refunded, in installments such that the principal and interest payable on such Medium-Term Note in each Fiscal Year in such period will be equal to the principal and interest payable on such Medium-Term Note in each other Fiscal Year in such period.

Net Revenues for any period mean the Revenues during such period plus (x) the amounts, if any, paid from the Rate Stabilization Fund into the Revenue Fund during such period (excluding from (x) amounts already included in the Revenues for such period representing interest earnings transferred from the Rate Stabilization Fund to the Revenue Fund) and minus (y) the sum of (a) the Operation and Maintenance Expenses during such period and (b) the amounts, if any, paid from the Revenue Fund into the Rate Stabilization Fund during such period.

Operation and Maintenance Expenses mean all expenses incurred in connection with the operation and maintenance of the System including, without limiting the generality of the foregoing, all operating and maintenance expenses included in the Uniform System of Accounts exclusive of interest, depreciation and amortization charges. Operation and Maintenance Expenses may include Credit Obligations. See "Application of Revenues" in this Appendix D.

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

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

Qualified Hedging Contract means, to the extent from time to time permitted by law, any financial arrangement (i) which is entered into by the City with an entity that is a Qualified Hedging Contract Provider at the time the arrangement is entered into, (ii) which is a cap, floor or collar; an interest rate swap, including a forward rate or future rate swap; asset, index, price or market-linked-transaction or agreement; other exchange or rate protection transaction agreement; agreement for the future delivery or price management of fuel or other commodities; other similar transaction (however designated); or any combination thereof; or any option with respect thereto, executed by the City for the purpose of moderating interest rate or commodity price fluctuations or otherwise, and (iii) which has been designated in writing to the Trustee by an Authorized Officer of the City as a Qualified Hedging Contract (which writing shall specify, in the case of a Qualified Hedging Contract that is entered into in connection with any Bonds, the Bonds with respect to which such Qualified Hedging Contract is entered into).

Qualified Hedging Contract Provider means an entity whose senior unsecured long-term debt obligations, financial program rating, counterparty rating or claims paying ability is rated, or whose payment obligations under a financial arrangement of the type referred in clause (ii) of the definition of Qualified Hedging Contract are guaranteed or insured by an entity whose senior unsecured long-term obligations, financial program rating, counterparty rating or claims paying ability is rated, on the date a Qualified Hedging Contract is entered into, either (i) at least as high as the third highest Rating Category of each Rating Agency then maintaining a rating for the Qualified Hedging Contract Provider, but in no event lower than any Rating Category designated by each such Rating Agency for the Bonds, or (ii) at any such lower Rating Categories which each such Rating Agency indicates in writing to the City and the Trustee will not, by itself, result in a reduction or withdrawal of its rating on the Outstanding Bonds that is in effect prior to entering into such Qualified Hedging Contract and which is an authorized counterparty pursuant to the City's investment policy as from time to time approved by the City.

Refundable Principal Installment means any Principal Installment for any Series of Bonds, including Variable Rate Bonds, any Commercial Paper Notes or any Medium-Term Notes, which the City intends to pay with moneys which are not Revenues, provided that (i) in the case of Bonds other than Commercial Paper Notes or Medium-Term Notes, such intent shall have been expressed in the Supplemental Resolution authorizing such Series of Bonds, (ii) in the case of Commercial Paper Notes, such intent shall be expressed in the then current Commercial Paper Payment Plan for such Commercial Paper Notes and (iii) in the case of Medium-Term Notes, such intent shall be expressed in the then current Medium-Term Note Payment Plan for such Medium-Term Notes; and provided further that any such Principal Installment, other than Principal Installments for Commercial Paper Notes and Medium-Term Notes, shall be a Refundable Principal Installment only through the penultimate day of the month preceding the month in which such Principal Installment comes due or such earlier time as the City no longer intends to pay such Principal Installment with moneys which are not Revenues and with respect to Bonds that are Commercial Paper Notes or Medium-Term Notes, any Commercial Paper Note or Medium-Term Note shall cease to be a Refundable Principal Installment at such time, if any, as shall be provided in the Commercial Paper Payment Plan or Medium-Term Note Payment Plan, as the case may be, applicable thereto.

Reserve Deposit, in respect of the Bonds of any of Additionally Secured Series, means an amount which shall be deposited monthly into the subaccount in the Debt Service Reserve Account in the Debt Service Fund established with respect to the Bonds of such Additionally Secured Series equal to the product of a fraction, the numerator of which shall be one and the denominator of which shall equal the number of months (which shall be not greater than sixty (60) months), designated by the City in the Supplemental Resolution authorizing the issuance of the Bonds of such Additionally Secured Series, in which the Reserve Deposit for the Bonds of such Additionally Secured Series is to be paid, times, the excess (if any) of the Debt Service Reserve Requirement on such date on all Additionally Secured Series of Bonds secured by such subaccount Outstanding including such Additionally Secured Series of Bonds, over the Debt Service Reserve Requirement on all Additionally Secured Series of Bonds secured by such subaccount excluding such Additionally Secured Series of Bonds, such excess to be reduced by (i) the amount, if any, by which the amount on deposit in the separate subaccount in the Debt Service Reserve Account on the date of issuance of such Series of Bonds exceeds the Debt Service Reserve Requirement on all Additionally Secured Series of Bonds secured by such subaccount excluding such Additionally Secured Series of Bonds being issued, and (ii) the amount of proceeds of the Bonds of such Additionally Secured Series being issued or other funds, if any, deposited in such subaccount in the Debt Service Reserve Account on the date of issuance of the Additionally Secured Series of Bonds being issued; *provided, however,* that the Reserve Deposit may be reduced whenever any additional deposit allocable to the Reserve Deposits for such Additionally Secured Series is made into the separate subaccount in the Debt Service Reserve Account.

Resolution means the Utilities System Revenue Bond Resolution adopted by the City on June 6, 1983, as heretofore amended, restated and supplemented, including as amended and restated by the Amended and Restated Resolution, and as the same hereafter may be further amended and supplemented in accordance with the terms thereof.

Revenues mean, to the extent accrued to or received by the System or any board or agency in control of the management and operation of the System, (i) all rates, fees, rentals, other charges, and other income properly allocable to the System, resulting from the ownership and operation of the System, excluding customer deposits and any other deposits subject to refund until such deposits have become the property of the City, (ii) the proceeds of any insurance covering business interruption loss relating to the System, and (iii) interest earned on any moneys or securities held pursuant to the Resolution and paid or to be paid into the Revenue Fund; *provided, however*, Revenues shall not include payments made to the

City by a Qualified Hedging Contract Provider pursuant to a Parity Hedging Contract Obligation that are deposited into the Debt Service Account in the Debt Service Fund.

System means the entire combined and consolidated electric system, water system, wastewater system, natural gas system and telecommunications system of the City, now existing and hereafter acquired by lease, contract, purchase or otherwise or constructed by the City, including any interest or participation of the City in any facilities in connection with said system, together with all additions, betterments, extensions and improvements to said system or any part thereof hereafter constructed or acquired and together with all lands, easements, licenses and rights of way of the City and all other works, property or structures of the City and contract rights and other tangible and intangible assets of the City now or hereafter owned or used in connection with or related to said System; *provided, however*, that upon compliance with certain provisions of the Resolution, the term System shall be deemed to include other utility functions added to the System such as the production, distribution and sale of process steam, the providing of cable television services, or other utility functions that are, in accordance with Prudent Utility Practice, reasonably related to the services provided by the System. Notwithstanding the foregoing definition of the term System, such term shall not include any properties or interests in properties of the City which the City determines shall not constitute a part of the System for the purpose of the Resolution. See "Additional Utility Functions" in this Appendix D.

Trust Estate shall mean (i) the proceeds of the sale of the Bonds, (ii) the Revenues and (iii) all Funds established by the Resolution (other than the Debt Service Reserve Account in the Debt Service Fund and any fund which may be established pursuant to the Resolution for decommissioning and certain other specified purposes), including the investments and income, if any, thereof.

Pledge

The Bonds are direct and special obligations of the City payable solely from and secured as to the payment of the principal and Redemption Price thereof, and interest thereon, in accordance with their terms and the provisions of the Resolution solely by the Trust Estate and the Trust Estate is pledged and assigned to the Trustee for the benefit of the Bondholders, subject to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

Application of Revenues

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

Funds	**Held By**
Revenue Fund	City
Rate Stabilization Fund	City
Debt Service Fund	Trustee
Subordinated Indebtedness Fund	Trustee
Utilities Plant Improvement Fund	City

The Resolution also provides for the establishment of one or more funds that may be required from time to time by Federal, State or local regulations, by contractual obligations, or in order to operate the System in accordance with Prudent Utility Practice, so as to provide, among other things, for costs of decommissioning, retirement or disposal of Facilities for costs of nuclear waste storage and disposal

including the cost of disposal of spent fuel, for maintaining financial responsibility for the closure of hazardous waste storage facilities, or for self insurance. Deposits into any such funds may be made only after the required deposits have been made into the funds specified above. Deposits into any such funds may be made only with amounts defined by the Resolution to be available for use by the City for any lawful purpose. If and when established, such funds shall not be governed by the Resolution and will not be pledged as security for the Bonds.

Pursuant to the Resolution, all Revenues of the System are deposited into the Revenue Fund as soon as practicable and in any event within ten days after receipt. Each month the City is to pay from the Revenue Fund amounts necessary to meet Operation and Maintenance Expenses for such month. Payments owed by the City with respect to any Credit Obligations shall constitute Operation and Maintenance Expenses only if the City files with the Trustee, at the time the City enters into the contract relating to such Credit Obligation, a certificate of an Authorized Officer of the City to the effect that, if such Credit Obligation is so paid, estimated Net Revenues for each Fiscal Year beginning with the year in which the Credit Obligation becomes effective and ending with the later of the fifth full Fiscal Year thereafter or the first full Fiscal Year in which less than 10% of the interest coming due on Bonds estimated to be Outstanding is paid from Bond proceeds, are at least equal to 1.25 times the Aggregate Debt Service for such Fiscal Year.

Following the payment of Operation and Maintenance Expenses, the Resolution provides that monies in the Revenue Fund shall be applied (such application to be made in such a manner so as to assure good funds in such Funds and Accounts on the last business day of each calendar month), to the extent available, in the following manner and in the following order of priority:

(1) *To the Rate Stabilization Fund*, the amount, if any, budgeted for deposit into such Fund, in accordance with the then current Annual Budget or as otherwise determined by the City. The City may also from time to time withdraw amounts currently on deposit in the Rate Stabilization Fund and (i) transfer such amounts to any other Fund or Account established under the Resolution, (ii) use such amounts to purchase or redeem Bonds and/or Subordinated Indebtedness; *provided, however*, that in the case of the purchase of Bonds and/or Subordinated Indebtedness, the Bonds and/or Subordinated Indebtedness shall be purchased at a price not to exceed the Redemption Price which would be applicable if the Bonds and/or Subordinated Indebtedness were redeemed at the time of the intended purchase or as soon thereafter as such Bonds and/or Subordinated Indebtedness shall be subject to redemption, or (iii) use such amounts to otherwise provide for the payment of and/or Subordinated Indebtedness Bonds.

(2) *To the Debt Service Account and the Debt Service Reserve Account in the Debt Service Fund*, (i) for credit to the Debt Service Account, (a) the amount, if any, required so that the balance in said Account shall equal the Accrued Aggregate Debt Service as of the last day of the then current month, (b) payments received by the City from a Qualified Hedging Contract Provider pursuant to a Parity Hedging Contract Obligation and (c) the amount, if any, required so the City can pay all obligations payable out of the Debt Service Account in the current month; provided that, for the purposes of computing the amount to be deposited in said Account, there shall be excluded from the balance in said Account the amount, if any, set aside in said Account from the proceeds of Bonds (including amounts, if any, transferred thereto from the Construction Fund) for the payment of interest on Bonds less the amount of such proceeds to be applied in accordance with the Resolution to the payment of interest accrued and unpaid and to accrue on Bonds to the last day of the then current calendar month; and (ii) for credit to each separate subaccount in the Debt Service Reserve Account, the amount, if any, required so that the balance in each such subaccount shall equal the Debt Service Reserve Requirement related thereto including any amount required to be credited to any separate subaccount in the Debt Service

Reserve Account to satisfy any Reserve Deposits, established for any Additionally Secured Series of Bonds as of the last day of the then current month (or, if the amount on deposit in the Revenue Fund shall not be sufficient to make the deposits required to be made pursuant to this clause (ii) with respect to all of the separate subaccounts in the Debt Service Reserve Account, then such amount on deposit in the Revenue Fund shall be applied ratably, in proportion to the amount necessary for deposit into each such subaccount).

Amounts in the Debt Service Reserve Account are applied to make up any deficiency in the Debt Service Account. Whenever the amount in the Debt Service Reserve Account, without giving effect to any surety bond, insurance policy, letter of credit or other similar obligation deposited in such Account pursuant to the Resolution, together with the amount in the Debt Service Account, is sufficient to pay in full all Outstanding Bonds and Parity Obligations in accordance with their terms, the funds on deposit in the Debt Service Reserve Account will be transferred to the Debt Service Account. Whenever the moneys on deposit in the Debt Service Reserve Account shall exceed the Debt Service Reserve Requirement, after giving effect to any surety bond, insurance policy, letter of credit, or other similar obligation deposited in such Account pursuant to the Resolution, such excess shall upon the request of the City be transferred to the City and credited upon the City's receipt thereof to make up any deficiencies in the Subordinated Indebtedness Fund and the Utilities Plant Improvement Fund, in that order. Any balance of such excess shall be credited to the Revenue Fund.

In the event of the refunding or defeasance of any Bonds of an Additionally Secured Series, the Trustee shall, if the City so directs, withdraw from the Debt Service Account and the Debt Service Reserve Account in the Debt Service Fund all, or any portion of, the amounts accumulated therein and deposit such amounts with itself as Trustee to be held for the payment of the principal or Redemption Price, if applicable, and interest on the Bonds being refunded; provided that such withdrawal shall not be made unless (i) immediately thereafter the Bonds being refunded shall be deemed to have been paid pursuant to the Resolution, and (ii) (a) in the case of the Debt Service Account, the amount remaining therein, after giving effect to the issuance of the Refunding Bonds and the disposition of the proceeds thereof, shall not be less than the Accrued Aggregate Debt Service and (b) in the case of the Debt Service Reserve Account, the amount remaining therein, after giving effect to any surety bond, insurance policy, letter of credit or other similar obligation deposited in such Account, and after giving effect to the issuance of the Refunding Bonds and the disposition of the proceeds thereof, shall not be less than the Debt Service Reserve Requirement.

In lieu of the required transfers of moneys to the Debt Service Reserve Account, the City may cause to be deposited into any subaccount established in the Debt Service Reserve Account for the benefit of the holders of the Bonds of each Additionally Secured Series secured thereby an irrevocable surety bond, an insurance policy, a letter of credit or any other similar obligation in an amount equal to the difference between the Debt Service Reserve Requirement related thereto and the sums of moneys or value of Investment Securities then on deposit in such subaccount, if any. The surety bond, insurance policy, letter of credit or other similar obligation shall be payable (upon the giving of notice as required thereunder) on any due date on which moneys will be required to be withdrawn from such subaccount and applied to the payment of a Principal Installment of or interest on any Bonds of each Additionally Secured Series secured thereby and such withdrawal cannot be met by amounts on deposit in such subaccount. The entity providing any such surety bond, insurance policy, letter of credit or similar obligation shall have the qualifications set forth in the Supplemental Resolution establishing such subaccount. If a disbursement is made pursuant to a surety bond, an insurance policy, a letter of credit or any other similar obligation provided pursuant to this subsection, the City shall within twelve months either

(i) reinstate the maximum limits of such surety bond, insurance policy, letter of credit or other similar obligation or (ii) deposit into the subaccount established in the Debt Service Reserve Account funds in the amount of the disbursement made under such surety bond, insurance policy, letter of credit or other similar obligation, or a combination of such alternatives, as shall provide that the amount in such subaccount equals the Debt Service Reserve Requirement related thereto. In the event that the rating attributable to any insurer providing any surety bond, insurance policy or other similar obligation or any bank or trust company providing any letter of credit or other similar obligation held as above provided in any separate subaccount in the Debt Service Reserve Account shall fall below that required as above provided, the City shall within twelve months either (i) replace such surety bond, insurance policy, letter of credit or other similar obligation with a surety bond, insurance policy, letter of credit or other similar obligation which shall meet the above provided requirements or (ii) deposit into such separate subaccount in the Debt Service Reserve Account sufficient funds, or a combination of such alternatives, as shall provide that the amount in the separate subaccount in such Debt Service Reserve Account equals the Debt Service Reserve Requirement related thereto.

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

(4) *To the Utilities Plant Improvement Fund*, the amount determined by the City to be appropriate for deposit into this Fund; *provided*, that for each Fiscal Year deposits into this Fund will be at least equal to one-half (1/2) of the Net Revenues including interest income, but excluding other non-operating revenues and expenses, during the immediately preceding Fiscal Year, less the sum of (i) Aggregate Debt Service during the immediately preceding Fiscal Year and (ii) interest and principal paid during the immediately preceding Fiscal Year with respect to all Subordinated Indebtedness payable out of Revenues under the Resolution. Amounts deposited in the Utilities Plant Improvement Fund will be applied to (i) payments into the Debt Service Account or into any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund; (ii) payments for the cost of extensions, enlargements or additions to, or the replacement of capital assets of the System and emergency repairs thereto; (iii) payments into the Subordinated Indebtedness Fund; (iv) purchasing or redeeming Bonds and/or Subordinated Indebtedness; or (v) otherwise to provide for the payment of Bonds and/or Subordinated Indebtedness. If at any time amounts on deposit in the Utilities Plant Improvement Fund are determined by the City to be in excess of the requirements thereof, and other moneys are not available for the payment of Operation and Maintenance Expenses, then such excess may be used for the payment of Operation and Maintenance Expenses.

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

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

The balance of any moneys remaining in the Revenue Fund after the required payments have been made can be used by the City for any lawful purpose; *provided, however*, that none of the remaining moneys can be used for any purpose other than those specified hereinabove unless all current payments, including payments to the Utilities Plant Improvement Fund calculated on a pro rata annual basis, and including all deficiencies in prior payments, if any, have been made in full and unless the City has complied fully with all covenants and provisions of the Resolution.

Construction Fund

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

The City will withdraw from the Construction Fund amounts for the payment of the Cost of Acquisition and Construction of the System. Amounts in the Construction Fund which the City at any time determines to be in excess of the amounts required for the purposes thereof are to be transferred to the Debt Service Reserve Account, to the extent necessary for the funds in any separate subaccount therein to equal the Debt Service Reserve Requirement, and the balance is to be paid to the City for credit to the Utilities Plant Improvement Fund. To the extent that other moneys are not available therefor, amounts in the Construction Fund will be applied to the payment of principal of and interest on Bonds and Parity Obligations when due.

The City may discontinue the acquisition or construction of any portion of the System which is being paid out of the Construction Fund, if the City Commission determines that to do so is necessary or desirable in the conduct of the business of the City and not disadvantageous to Bondholders and holders of Subordinated Bonds.

Investment of Certain Funds and Accounts

The Resolution provides that certain Funds and Accounts held thereunder may, and in the case of the Debt Service Account, the Debt Service Reserve Account, the Sinking Fund Account and the Amortization Account in the Debt Service Fund and the Subordinated Indebtedness Fund must, be invested to the fullest extent practicable in Investment Securities. The Resolution provides that such investments will mature no later than such times as necessary to provide moneys when needed for payments from such Fund and Accounts and provides specific limitations of the term of investments for moneys in certain Funds. Investment Securities are to be valued as of each September 30 and at such other times as the City shall determine. Investment Securities are to be valued at the amortized cost thereof. In the event that the City deposits in the Debt Service Reserve Account in the Debt Service Fund an irrevocable surety bond, an insurance policy, letter of credit or other obligation, such surety bond, insurance policy, letter of credit or other obligation shall be valued at the lesser of the face amount thereof or the maximum amount available thereunder.

Unless otherwise determined by the City, net interest earned on any moneys or investments in such Funds or Accounts, other than the Construction Fund, is to be paid into the Revenue Fund; *provided, however*, that if the City so directs, such interest earned on moneys or investments in any Fund or Account, or any portion thereof, is to be deposited in the Construction Fund. Interest earned on any moneys or investments in the Construction Fund is to be held in such Fund, or deposited into the Revenue Fund if so directed by the City.

Additional Bonds, Conditions to Issuance

The City may issue additional Bonds for the purpose of paying all or a portion of the Cost of Acquisition and Construction of the System or for the purpose of refunding outstanding Bonds. All Series of such Bonds will be payable from the same sources and secured on a parity with all other Series of Bonds. Set forth below are certain conditions applicable to the issuance of additional Bonds (other than Parity Obligations or Reimbursement Obligations).

Historical Debt Service Coverage. The issuance of any Series of additional Bonds (except for refunding Bonds) is conditioned upon the delivery by the City of a certificate to the effect that, for any period of 12 consecutive months within the 18 months preceding the issuance of Bonds of such Series, Net Revenues were at least equal to 1.25 times the Aggregate Debt Service during such period in respect to the then outstanding Bonds.

Projected Debt Service Coverage. The issuance of any Series of additional Bonds (except for refunding Bonds) is further conditioned upon the delivery by the City of a certificate to the effect that, for each Fiscal Year in the period beginning with the year in which the additional Series of Bonds is to be issued and ending on the later of the fifth full Fiscal Year thereafter or the first full Fiscal Year in which less than 10% of the interest coming due on Bonds then to be outstanding is to be paid from Bond proceeds, Net Revenues are estimated to be at least equal to 1.40 times the Aggregate Debt Service for each such Fiscal Year.

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

Subordinated Indebtedness

The City may issue Subordinated Indebtedness payable out of and secured by amounts in the Subordinated Indebtedness Fund without compliance with any of the conditions for the issuance of additional Bonds. References herein and in the Resolution to Bonds do not include Subordinated Indebtedness.

Issuance of Other Indebtedness

The Resolution does not restrict the issuance by the City of other indebtedness to finance facilities which are not a part of the System. Such indebtedness may be secured by a mortgage of the facility so financed or a pledge of the revenues therefrom. No such indebtedness may be payable out of or secured by the Trust Estate.

Rate Covenant

Under the Resolution, the City has covenanted that it will at all times establish and collect rates, fees and charges for the use or sale of the output, capacity or service of the System which, together with other available Revenues, are reasonably expected to yield Net Revenues equal to at least 1.25 times the Aggregate Debt Service for the forthcoming 12-month period and, in any event, as required, together with other available funds, to pay or discharge all other indebtedness, charges and liens payable out of Revenues under the Resolution; *provided, however*, that any Principal Installment which is a Refundable Principal Installment may be excluded from Aggregate Debt Service for purposes of the foregoing but only to the extent that the City intends to pay such Principal Installment from sources other than Revenues.

Creations of Liens

The City will not issue any other evidences of indebtedness, other than the Bonds and Parity Hedging Contract Obligations, payable out of or secured by the Trust Estate, any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund or other moneys, securities or funds held or set aside under the Resolution nor create any lien or charge thereon, except (1) evidences of indebtedness (a) payable out of moneys in the Construction Fund as part of the Cost of Acquisition and Construction of the System or (b) payable out of, or secured by a security interest in or pledge of assignment of, Revenues to be received after the discharge of the lien on such Revenues provided in the Resolution or (2) Subordinated Indebtedness.

Disposition of System

Except as described in this paragraph, the City may not sell, lease, mortgage or otherwise dispose of any part of the System. The City may sell or exchange property or facilities of the System if the sale or exchange of such property or facilities will not impair the ability of the City to comply with the rate covenant described above. The proceeds of any such sale or exchange not used to acquire other property for the System are to be deposited in the Utilities Plant Improvement Fund. If certain conditions are satisfied, the City also may lease or make contracts or grant licenses, easements or rights for the operation or use of or with respect to, any part of the System. Payments received by the City under any such arrangement will constitute Revenues. The City may also enter into certain sale leaseback arrangements if certain conditions are satisfied. The proceeds of any such transaction, after payment of expenses, are to be deposited into the Utilities Plant Improvement Fund.

Insurance

The City is required to provide protection for the System consisting of insurance, self insurance and indemnities both in accordance with the requirements of all agreements to which the City may at any time be a party with respect to joint ownership by the City with others of electric, water, wastewater, natural gas, telecommunications or other System facilities, and in accordance with Prudent Utility Practice. The City will keep the properties of the System insured and will carry other insurance against fire and other risks to the extent and of the kinds usually insured against by those operating properties similar to the properties of the System. Any self insurance shall be in the amount, manner and type provided by those operating properties similar to the properties of the System.

Reconstruction; Application of Insurance Proceeds

In the event of any loss or damage to the System covered by insurance, the City will promptly repair, reconstruct or replace the parts of the System affected by such loss or damage to the extent necessary to the proper conduct of the operation of the business of the System. The proceeds of insurance paid on account of such damage or destruction will be used for the cost of such reconstruction or replacement with any excess insurance proceeds being transferred to the Revenue Fund.

Governmental Reorganization

The Resolution does not prevent any lawful reorganization of the governmental structure of the City, including a merger or consolidation of the City with another public body or the transfer of a public function of the City to another public body, provided that any reorganization which affects the System shall provide that the System shall be continued as a single enterprise and that any public body which succeeds to the ownership and operation of the System shall also assume all rights, powers, obligations, duties and liabilities of the City under the Resolution and pertaining to all Bonds.

Additional Utility Functions

The City may expand the utility functions of the System as they exist on the date of the Resolution as permitted by the proviso contained in the definition of "System" only if the City files with the Trustee a certified copy of resolutions of the Commission to the effect that, based upon such certificates and opinions of its Consulting Engineers, independent certified public accountants, bond counsel, financial advisors or other appropriate advisors as the Commission shall deem necessary or appropriate, the addition of such utility functions (a) will not impair the ability of the City to comply during the current or any future Fiscal Year with the provisions of the Resolution, including specifically the rate covenant, and (b) will not materially adversely affect the rights of the holders of the Bonds. Pursuant to such provisions of the Resolution, (1) in 1990 the City filed with the Trustee a certified copy of a resolution of the Commission to such effect in connection with the acquisition by the City of the assets of the natural gas system and (2) in 1995 the City filed with the Trustee a certified copy of a resolution of the Commission to such effect in connection with the telecommunications system. Accordingly, the properties, assets and other rights of the natural gas system and the telecommunications system constitute a part of the System for all purposes of the Resolution, and all references in the Resolution to the "System" are deemed to include such properties, assets and other rights.

Amendment of Resolution

Without the consent of the Bondholders or the Trustee, the City may adopt a Supplemental Resolution which (i) closes the Resolution against, or provides additional conditions to, the issuance of Bonds or other evidences of indebtedness; (ii) adds covenants and agreements of the City; (iii) adds limitations and restrictions to be observed by the City; (iv) authorizes Bonds of an additional Series; (v) confirms any security interest, pledge or assignment of the Revenues or of any other moneys, securities or funds; (vi) makes any modification which is to be effective only after all Bonds of each Series Outstanding as of the date of the adoption of such Supplemental Resolution cease to be Outstanding; (vii) authorizes Subordinated Indebtedness or Parity Hedging Contract Obligations; (viii) appoints the Co-Trustee; (ix) provides for the issuance, execution, delivery, authentication, payment, registration, transfer and exchange of Bonds in coupon form payable to bearer or in uncertificated form; and (x) if and to the extent authorized in a Supplemental Resolution authorizing an Additionally Secured Series of Bonds, specifies the qualifications of any provider of an obligation similar to a surety bond, insurance policy or letter of credit for deposit into the particular subaccount in the Debt Service Reserve Account securing the Bonds of such Additionally Secured Series.

The Resolution may be amended, with the consent of the Trustee but without the consent of Bondholders, (i) to cure any ambiguity, supply any omission or correct any defect or inconsistent provision in the Resolution; (ii) to insert provisions clarifying the Resolution; or (iii) to make any other modification or amendment of the Resolution which the Trustee, in its sole discretion, determines will not have a material adverse effect on the interests of Bondholders.

For so long as any of the Prior Bonds shall be Outstanding under the Resolution, the following provision shall be applicable to amendments to the Resolution that require the consent of the holders of the Bonds:

> The Resolution and the rights and obligations of the City and of the holders of the Bonds may be amended by a Supplemental Resolution with the written consent of the holders of a majority in principal amount in each case of (i) all Bonds then Outstanding, and (ii) in case less then all of the Series of Outstanding Bonds are affected, the Bonds of each Series so affected, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Installment, the Bonds of the particular Series and maturity entitled to the benefit of the Sinking Fund Installment. No such modification or amendment may (A) permit a change in the terms of redemption or maturity or any installment of interest or a reduction in the principal, Redemption Price or rate of interest thereon without consent of each affected holder, or (B) reduce the percentages or otherwise affect the classes of Bonds the consent of the holders of which is required to effect any such modification or amendment. For purposes of the foregoing, the holders of Bonds may include the initial holders thereof regardless of whether such Bonds are being held for subsequent resale.

At such time as none of the Prior Bonds shall remain Outstanding under the Resolution, the following provision shall be applicable to amendments to the Resolution that require the consent of the holders of the Bonds:

> The Resolution and the rights and obligations of the City and of the holders of the Bonds may be amended by a Supplemental Resolution with the written consent of the holders of a majority in principal amount in each case of (i) all Bonds then Outstanding affected by the modification or amendment, and (ii) in case the modification or amendment changes the terms of any Sinking Fund Installment, the Bonds of the particular Series and maturity entitled to the benefit of the Sinking Fund Installment. No such modification or amendment may (A) permit a change in the terms of redemption or maturity or any installment of interest or a reduction in the principal, Redemption Price or rate of interest thereon without consent of each affected holder, or (B) reduce the percentages or otherwise affect the classes of Bonds the consent of the holders of which is required to effect any such modification or amendment. For purposes of the foregoing, the holders of Bonds may include the initial holders thereof regardless of whether such Bonds are being held for subsequent resale.

Defeasance

The lien of the Resolution, the pledge of the Trust Estate and each separate subaccount in the Debt Service Reserve Account in the Debt Service Fund, and all covenants, agreements and other obligations of the City under the Resolution will cease, terminate and become void and be discharged and satisfied whenever all Bonds are paid in full. If any Bonds are paid in full, such Bonds shall cease to be entitled to any lien, benefit or security under the Resolution and all covenants, agreements and obligations of the City to the holders of such Bonds shall cease, terminate and be discharged. Bonds are deemed to have been paid and are not entitled to the lien, benefit and security of the Resolution whenever the following conditions are met: (i) in case any Bonds are to be redeemed prior to their maturity, the City has

given to the Trustee instructions in accordance with the Resolution to give notice of redemption therefor, (ii) there has been deposited with the Trustee either moneys or Defeasance Securities which, together with other moneys, if any, also deposited, will be sufficient to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on such Bonds, and (iii) in the event such Bonds are not subject to redemption within the next succeeding 60 days, the City has given the Trustee instructions in accordance with the Resolution to give notice to the holders of such Bonds that the above deposit has been made and that such Bonds are deemed to have been paid and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds.

Defeasance Securities described in clause (f) of the definition above may be included in the Defeasance Securities deposited with the Trustee for purposes of defeasance only if the determination as to whether the moneys and Defeasance Securities to be deposited with the Trustee would be sufficient to pay when due, either at the maturity date thereof or, in the case of any Bonds to be redeemed prior to the maturity date thereof, on the redemption date or dates specified in any notice of redemption to be published by the Trustee or in the instructions to publish a notice of redemption provided to the Trustee in accordance with the Resolution, the principal and Redemption Price, if applicable, and interest on the Bonds is made both on the assumption that the Defeasance Securities described in clause (f) of the definition above were not redeemed at the option of the issuer prior to the maturity date thereof and on the assumption that such Defeasance Securities would be redeemed by the issuer thereof at its option on each date on which such option could be exercised and that as of such date or dates interest ceased to accrue on such Defeasance Securities and that the proceeds of such redemption would not be reinvested by the Trustee.

In the event that Defeasance Securities described in clause (f) are deposited with the Trustee, then any notice of redemption to be given by the Trustee and any set of instructions relating to a notice of redemption given to the Trustee may provide, at the option of the City, that any redemption date or dates in respect of all or any portion of the Bonds to be redeemed on such date or dates may at the option of the City be changed to any other permissible redemption date or dates and that redemption dates may be established for any Bonds deemed to have been paid in accordance with the defeasance provisions of the Resolution upon their maturity date or dates at any time prior to the actual giving of any applicable notice of redemption in the event that all or any portion of such Defeasance Securities have been called for redemption or have been redeemed by the issuer thereof prior to the maturity date thereof.

Events of Default; Remedies

Events of default under the Resolution include (i) failure to pay the principal or Redemption Price of any Bond when due; (ii) failure to pay any installment of interest on any Bond or the unsatisfied balance of any Sinking Fund Installment when due; (iii) failure to comply with the requirements of the rate covenant unless the City promptly takes certain remedial action; (iv) failure by the City to perform or observe any other covenants, agreements, or conditions contained in the Resolution or the Bonds; and (v) certain events of bankruptcy or insolvency. Upon the happening of any such Event of Default the Trustee or the holders of not less than 25% in principal amount of the Bonds then Outstanding may declare the principal of and accrued interest on the Bonds due and payable (subject to a rescission of such declaration upon the curing of such default before the Bonds have matured).

Unless and until an event of default is remedied, the Trustee may proceed, and upon written request of the holders of not less than 25% in principal amount of the Bonds Outstanding must proceed, to protect and enforce its rights and the rights of the holders of the Bonds under the Resolution by a suit or suits in equity or at law (which may include a suit for the specific performance of any covenant contained

in the Resolution) or in the enforcement of any other legal or equitable rights as the Trustee deems most effectual to enforce any of its rights or to perform any of its duties under the Resolution.

During the continuance of an event of default under the Resolution, the Trustee is to apply all moneys, securities, funds and Revenues received by the Trustee (other than amounts on deposit in any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund) as follows and in the following order: (i) charges, expenses and liabilities of the Trustee, the Co-Trustee, any Paying Agents, the Depositaries and the Bond Registrar; (ii) reasonable and necessary Operation and Maintenance Expenses and reasonable renewals, repairs and replacements of the System necessary in the judgment of the Trustee to prevent a loss of Revenues; and (iii) to the interest and principal or Redemption Price due on the Bonds.

No Bondholder has any right to institute any suit, action or proceeding for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless (1) such Bondholder previously has given the Trustee written notice of the Event of Default, (2) the holders of at least 25% in principal amount of the Bonds then Outstanding have filed a written request with the Trustee and have afforded the Trustee a reasonable opportunity to exercise its powers or institute such suit, action or proceeding, (3) there has been offered by such holders to the Trustee adequate security and indemnity against its costs, expenses and liability to be incurred and (4) the Trustee has refused to comply with such request within 60 days after receipt of such notice, request and offer of indemnity. Nothing in the Resolution or the Bonds affects or impairs the City's obligation to pay the Bonds and interest thereon when due from the Trust Estate or the right of any Bondholder to enforce such payment.

Trustee and Paying Agents

The Trustee or the Co-Trustee may at any time resign and be discharged from the duties and obligations created by the Resolution by giving notice of such resignation as provided in the Resolution. Such notice shall specify the date when such resignation shall take effect, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed by the City or the Bondholders as provided in the Resolution, in which event such resignation shall take effect immediately on the appointment of such successor. Such notice shall be mailed by first class mail, postage prepaid, not less than 60 days prior to the proposed date on which such resignation shall become effective, to the City, the Co-Trustee and the Holders of all Outstanding Bonds, at their last addresses, if any, appearing upon the registration books of the City kept by the Bond Registrar.

The Trustee or the Co-Trustee may be removed at any time with or without cause by an instrument or concurrent instruments in writing, filed with the Trustee or the Co-Trustee, and signed by the Holders of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized. So long as no Event of Default or an event which, with notice or passage of time, or both, would become an Event of Default, shall have occurred and be continuing, the Trustee or the Co-Trustee may be removed at any time for cause by resolution of the City filed with the Trustee or the Co-Trustee, as the case may be.

In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, a successor may be appointed by the City by a duly executed written instrument signed by an Authorized Officer of the City, but if the City does not appoint a successor Trustee within 60 days, then by the Holders of a majority in principal amount of the Bonds then Outstanding, by an instrument or concurrent instruments in writing signed and acknowledged by such

Bondholders or by their attorneys-in-fact duly authorized and delivered to such successor Trustee, notification thereof being given to the City and the predecessor Trustee. The City shall give notice of any such appointment made by it or the Bondholders by first class mail, postage prepaid, within 20 days after such appointment, to the Holders of all Outstanding Bonds, at their last addresses, if any, appearing upon the registration books of the City kept by the Bond Registrar.

Action by Credit Enhancer When Action by Holders of the Bonds Required

Except as otherwise provided in a Supplemental Resolution authorizing Bonds for which Credit Enhancement is being provided, if not in default in respect of any of its obligations with respect to Credit Enhancement for the Bonds of a Series, or a maturity within a Series, the Credit Enhancer for, and not the actual Holders of, the Bonds of a Series, or a maturity within a Series, for which such Credit Enhancement is being provided, shall be deemed to be the Holder of Bonds of any Series, or maturity within a Series, as to which it is the Credit Enhancer at all times for the purpose of (i) giving any approval or consent to the effectiveness of any Supplemental Resolution or any amendment, change or modification of the Resolution as specified in the Resolution or any other provision thereof, which requires the written approval or consent of Holders; *provided, however*, that these provisions shall not apply to any change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto and (ii) giving any approval or consent, exercising any remedies or taking any other action in accordance with the provisions of the Resolution.

Reimbursement Obligations

One or more Series of Reimbursement Obligations may be issued concurrently with the issuance of the Bonds of a Series authorized pursuant to the provisions of the Resolution for which Credit Enhancement or liquidity support is being provided with respect to such Bonds (or a maturity or maturities or interest rate within a maturity thereof) by a third-party. Such Reimbursement Obligations shall be issued for the purpose of evidencing the City's obligation to repay any advances or loans made to, or on behalf of, the City in connection with such Credit Enhancement or liquidity support; *provided, however*, that the stated maximum principal amount of any such Series of Reimbursement Obligations shall not exceed the aggregate principal amount of the Bonds with respect to which such Credit Enhancement or liquidity support is being provided, and such number of days' interest thereon as the City shall determine prior to the issuance thereof, but not in excess of 366 days' interest thereon, computed at the maximum interest rate applicable thereto; and *provided, further*, that principal amortization requirements shall be equal to the amortization requirements of the related Bonds, without acceleration. Any Reimbursement Obligation, which may include interest calculated at a rate higher than the interest rate on the related Bonds, may be secured by a pledge and assignment of the Trust Estate on a parity with the pledge and assignment created to secure the Bonds (a "Parity Reimbursement Obligation"), but only to the extent principal amortization requirements with respect to such reimbursement are equal to the amortization requirements for such related Bonds, without acceleration, or may be secured by a pledge and assignment of the Subordinated Indebtedness Fund which pledge and assignment shall be subordinate in all respects to the pledge of the Trust Estate created by the Resolution in favor of the Bonds and Parity Hedging Contract Obligations but on a parity with the pledge and lien securing Subordinated Indebtedness (a "Subordinated Reimbursement Obligation"), as determined by the City. Parity Reimbursement Obligations shall not include any payments of any fees, expenses, indemnification or other obligations to any provider of Credit Enhancement, or any payments pursuant to term-loan or other principal amortization requirements in reimbursement of any such advance that are more accelerated than

the amortization requirements on such related Bonds, which payments shall be Subordinated Reimbursement Obligations.

Special Provisions Relating to Capital Appreciation Bonds

For the purposes of (i) receiving payment of the Redemption Price if a Capital Appreciation Bond is redeemed prior to maturity, or (ii) receiving payment of a Capital Appreciation Bond if the principal of all Bonds is declared immediately due and payable following an Event of Default or (iii) computing the principal amount of Bonds held by the registered owner of a Capital Appreciation Bond in giving to the City or the Trustee any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, the principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value.

Special Provisions Relating to Deferred Income Bonds

For the purposes of (i) receiving payment of the Redemption Price if a Deferred Income Bond is redeemed prior to maturity, or (ii) receiving payment of a Deferred Income Bond if the principal of all Bonds is declared immediately due and payable following an Event of Default or (iii) computing the principal amount of Bonds held by the registered owner of a Deferred Income Bond in giving to the City or the Trustee any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, the principal amount of a Deferred Income Bond shall be deemed to be its then current Appreciated Value.

Special Provisions Relating to Parity Reimbursement Obligations

Except as otherwise provided in a Supplemental Resolution authorizing a Series of Reimbursement Obligations, for the purposes of (i) receiving payment of a Parity Reimbursement Obligation, whether at maturity, upon redemption or if the principal of all Bonds is declared immediately due and payable following an Event of Default, or (ii) computing the principal amount of Bonds held by the registered owner of a Parity Reimbursement Obligation in giving to the City or the Trustee any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, the principal amount of a Parity Reimbursement Obligation shall be deemed to be the actual principal amount that the City shall owe thereon, which shall equal the aggregate of the amounts advanced to, or on behalf of, the City in connection with the Bonds of the Series or maturity or interest rate within a maturity for which such Parity Reimbursement Obligation has been issued to evidence the City's obligation to repay any advances or loans made in respect of the Credit Enhancement or liquidity support provided for such Bonds, less any prior repayments thereof.

Provisions Concerning Qualified Hedging Contracts

The City may, to the extent from time to time permitted pursuant to law, enter into Qualified Hedging Contracts. The City's obligation to pay any amount under any Qualified Hedging Contract may be secured by a pledge and assignment of the Trust Estate on a parity with the pledge and assignment created by the Resolution to secure the Bonds (a "Parity Hedging Contract Obligation"), or may be secured by a pledge and assignment of the Subordinated Indebtedness Fund which pledge and assignment shall be subordinate in all respects to the pledge of the Trust Estate created by the Resolution in favor of the Bonds but on a parity with the pledge and assignment securing Subordinated Indebtedness (a "Subordinated Hedging Contract Obligation"), as determined by the City. Notwithstanding the foregoing, Parity Hedging Contract Obligations shall not include any payments of any termination payments owed to a counterparty to a Qualified Hedging Contract, which payments shall be Subordinated Hedging Contract Obligations.

Commercial Paper Notes

Commercial Paper Notes may be issued from time to time in Series secured by a pledge and assignment of the Trust Estate on a parity with the pledge and assignment created by the Resolution to secure the Bonds ("Parity Commercial Paper Notes"). Commercial Paper Notes may also be issued from time to time in series secured by a pledge and assignment of the Subordinated Indebtedness Fund which pledge shall be subordinate in all respects to the pledge of the Trust Estate created by the Resolution in favor of the Bonds but on a parity with the pledge and lien securing Subordinated Indebtedness ("Subordinated Commercial Paper Notes"). The Trustee shall authenticate and deliver Commercial Paper Notes to the City or upon its order, but only upon satisfaction of the conditions specified in the Resolution.

Medium-Term Notes

Medium-Term Notes may be issued from time to time in Series secured by a pledge and assignment of, the Trust Estate on a parity with the pledge and lien created by the Resolution to secure the Bonds ("Parity Medium-Term Notes"). Medium-Term Notes may also be issued from time to time in series secured by a pledge and assignment of the Subordinated Indebtedness Fund which pledge shall be subordinate in all respects to the pledge of the Trust Estate created by the Resolution in favor of the Bonds but on a parity with the pledge and lien securing Subordinated Indebtedness ("Subordinated Medium-Term Notes"). The Trustee shall authenticate and deliver Medium-Term Notes to the City or upon its order, but only upon satisfaction of the conditions specified in the Resolution.

Special Provisions Relating to 2012 Series B Bonds

In the Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution, the City has covenanted as follows:

> "**Tax Covenants.** 1. The City covenants that it shall not take any action or inaction, or fail to take any action, or permit any action to be taken on its behalf or cause or permit any circumstance within its control to arise or continue, if any such action or inaction would adversely affect the exclusion from gross income for federal income tax purposes of the interest on the 2012 Series B Bonds under Section 103 of the Internal Revenue Code of 1986 and the applicable Treasury Regulations promulgated thereunder. Without limiting the generality of the foregoing, the City covenants that it will comply with the instructions and requirements of the Tax Certificate to be executed and delivered on the date of issuance of the 2012 Series B Bonds concerning certain matters pertaining to the use of proceeds of the 2012 Series B Bonds, including any and all exhibits attached thereto (the 'Tax Certificate'). This covenant shall survive payment in full or defeasance of the 2012 Series B Bonds.
>
> 2. In the event that at any time the City is of the opinion that for purposes of this Section it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee under the Resolution, the City shall so instruct the Trustee in writing as to the specific actions to be taken, and the Trustee shall take such actions as specified in such instructions.
>
> 3. Notwithstanding any provisions of this Section, if the City shall provide to the Trustee an Opinion of Counsel of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that any specified action required under this Section is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest on the 2012 Series B Bonds, the City and

the Trustee may conclusively rely on such opinion in complying with the requirements of this Section and of the Tax Certificate, and the covenants hereunder shall be deemed to be modified to that extent.

4. Notwithstanding any other provision of the Resolution to the contrary, (a) upon the City's failure to observe or refusal to comply with the above covenants, the Holders of the 2012 Series B Bonds, or the Trustee acting on their behalf, shall be entitled to the rights and remedies provided to Bondholders under the Resolution, other than the right (which is hereby abrogated solely in regard to the City's failure to observe or refusal to comply with the covenants of this Section) to declare the principal of all 2012 Series B Bonds then outstanding, and the interest accrued thereon, to be due and payable and (b) neither the Holders of the Bonds of any Series other than the 2012 Series B Bonds, nor the Trustee acting on their behalf, shall be entitled to exercise any right or remedy provided to Bondholders under the Resolution based upon the City's failure to observe, or refusal to comply with, the above covenants."

APPENDIX E

CERTAIN DEFINITIONS APPLICABLE TO THE 2012 SERIES B BONDS

Set forth below are certain definitions applicable to the 2012 Series B Bonds. Capitalized terms used without definition shall have the respective meanings assigned thereto in the Twenty-Fifth Supplemental Resolution.

Bank means (a) JPMorgan Chase Bank, National Association and (b) in the event that a Substitute Liquidity Facility is substituted for the Initial Liquidity Facility, the bank or banks that is or are party to the Liquidity Facility then in effect.

Bank Rate shall have the meaning ascribed to such term in the Initial Liquidity Facility as originally executed; *provided, however*, that if the City shall receive an opinion of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that an amendment of such definition (including, for this purpose, any replacement thereof with another definition) will not cause the interest on the 2012 Series B Bonds to become includable in gross income for federal income tax purposes, then "Bank Rate" shall be deemed to refer to such definition as so amended (or replaced); and *provided, further*, that if any such amendment to such definition shall be scheduled to take effect other than in connection with the substitution of a Substitute Liquidity Facility for the Liquidity Facility then in effect, then such amendment shall not become effective unless consented to in writing by the Bank that is a party to the Liquidity Facility then in effect.

Business Day means any day, other than a Saturday or Sunday, on which the principal office of the City, the principal corporate trust office of the Tender Agent, the principal office of the Remarketing Agent and the lending office of the Bank under the Liquidity Facility are open for business during their respective normal business hours.

Daily Mode means the Interest Mode during which the 2012 Series B Bonds bear interest at Daily Rates.

Daily Rate means the interest rate applicable to the 2012 Series B Bonds during the Daily Mode, determined as provided in the Twenty-Fifth Supplemental Resolution.

Fitch means Fitch Ratings and its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City.

Fixed Mode means the Interest Mode during which the 2012 Series B Bonds bear interest at the Fixed Rate.

Fixed Rate means the interest rate applicable to the 2012 Series B Bonds during the Fixed Mode, determined as provided in the Twenty-Fifth Supplemental Resolution.

Flexible Mode means the Interest Mode during which the 2012 Series B Bonds bear interest at Flexible Rates.

Flexible Rate means the interest rate applicable to the 2012 Series B Bonds during the Flexible Mode, determined as provided in the Twenty-Fifth Supplemental Resolution.

[*Indebtedness* means, as to any Person, at a particular time, (a) indebtedness for borrowed money or for the deferred purchase price of property or services in respect of which such Person is liable, contingently or

otherwise, as obligor, guarantor or otherwise, or in respect of which such Person otherwise assures a creditor against loss, (b) obligations under leases which shall have been or should be, in accordance with generally accepted accounting principles as in effect from time to time, recorded as capital leases in respect of which obligations such Person is liable, contingently or otherwise, as obligor, guarantor or otherwise, or in respect of which obligations such Person assures a creditor against loss, (c) all guarantees, endorsements (other than for collection or deposit in the ordinary course of business) and other contingent obligations to purchase, to provide funds for payment, to supply funds to invest in any Person or otherwise to assure a creditor against loss, (d) obligations secured by any lien on property, whether or not the obligations have been assumed and (e) all other items or obligations which would be included in determining total liabilities on the balance sheet of a Person in accordance with generally accepted accounting principles; *provided, however*, that "Indebtedness" shall not include trade payables and similar obligations incurred in the ordinary course of business.]

Initial Liquidity Facility means the Standby Bond Purchase Agreement, dated as of August 1, 2012, between the City and JPMorgan Chase Bank, National Association, as amended from time to time.

Interest Accrual Period means the period from and including each Interest Payment Date to but excluding the next Interest Payment Date. The initial Interest Accrual Period for the 2012 Series B Bonds shall begin on (and include) the Delivery Date. The final Interest Accrual Period for any 2012 Series B Bond shall end on the day next preceding the maturity or redemption date of such 2012 Series B Bond.

Interest Mode means a period of time relating to the frequency with which the interest rate on the 2012 Series B Bonds is determined pursuant to the provisions of the Twenty-Fifth Supplemental Resolution. An Interest Mode may be the Auction Mode, the Daily Mode, the Weekly Mode, the Flexible Mode, the Term Mode or the Fixed Mode.

Interest Payment Date means, with respect to each 2012 Series B Bond (a) each date on which the 2012 Series B Bonds shall be subject to mandatory tender for purchase pursuant to the Twenty-Fifth Supplemental Resolution; (b) except as to any 2012 Series B Bank Bond, (i) as to 2012 Series B Bonds in the Daily Mode or the Weekly Mode, the first Business Day of each calendar month; (ii) as to 2012 Series B Bonds in the Flexible Mode, the first Business Day following the end of each Interest Period with respect thereto; and (iii) as to 2012 Series B Bonds in the Term Mode or the Fixed Mode, semi-annually on each April 1 and October 1 commencing on the first April 1 or October 1 occurring after the conversion to such Interest Mode; *provided, however*, that if such first date occurs less than three (3) months after such conversion, said first Interest Payment Date shall be on the second such date following such conversion; (c) as to any 2012 Series B Bank Bond, unless otherwise provided in the Liquidity Facility, each date determined pursuant to the Twenty-Fifth Supplemental Resolution; and (d) the maturity or redemption date thereof.

Interest Period means the period from and including a Rate Adjustment Date to but excluding the next succeeding Rate Adjustment Date (if any); *provided, however*, that (a) the first Interest Period for the 2012 Series B Bonds shall be the period from and including the Delivery Date to but excluding the first Rate Adjustment Date and (b) the final Interest Period for any 2012 Series B Bond shall be the period from and including the last Rate Adjustment Date preceding the maturity or redemption date of such 2012 Series B Bond to but excluding such maturity or redemption date.

Liquidity Facility means the Initial Liquidity Facility and, upon the effectiveness thereof as provided in the Twenty-Fifth Supplemental Resolution, each Substitute Liquidity Facility.

Liquidity Facility Expiration Date means the date upon which the Liquidity Facility is stated to expire or terminate, as such date may be extended from time to time, either by extension or renewal of such then existing Liquidity Facility or the issuance or entry into of a Substitute Liquidity Facility.

Liquidity Facility Requirement means an amount equal to the principal amount of the Outstanding 2012 Series B Bonds (other than 2012 Series B Bank Bonds), plus, if the 2012 Series B Bonds shall be in the Daily Mode or the Weekly Mode, 36 days' interest thereon computed at a rate per annum equal to the Maximum Rate and on the basis of a 365-day year.

Mode Adjustment Date means any date on which the Interest Mode or Interest Period to which the 2012 Series B Bonds are subject is to be changed to another Interest Mode or Interest Period, as the case may be, determined as provided in the Twenty-Fifth Supplemental Resolution.

Moody's means Moody's Investors Service and its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City.

Notice Parties means the City, the Trustee, the Paying Agent, the Bond Registrar, the Remarketing Agent, the Tender Agent and the Bank.

Purchase Date means a Business Day on which 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) are to be purchased upon optional or mandatory tender or deemed tender thereof pursuant to the terms of the Twenty-Fifth Supplemental Resolution.

Purchase Price means an amount equal to 100% of the principal amount of any 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) tendered or deemed tendered or remarketed pursuant to the Twenty-Fifth Supplemental Resolution, plus accrued and unpaid interest, if any, at the 2012 Series B Bond Rate or Rates in effect from and including the first day of the then current Interest Accrual Period through and including the day immediately preceding the Purchase Date or the date of remarketing, as the case may be, unless, in the case of 2012 Series B Bonds in the Term Mode, the date of remarketing is on or after the Record Date for the next succeeding Interest Payment Date for the 2012 Series B Bonds (other than 2012 Series B Bank Bonds) and on or prior to such Interest Payment Date, in which case the accrued and unpaid interest on such 2012 Series B Bonds being remarketed on such date shall not be paid as part of the Purchase Price.

Rate Adjustment Date means the day on which each Daily Rate, Weekly Rate, Flexible Rate, Term Rate or Fixed Rate on a 2012 Series B Bond shall become effective.

Rate Determination Date means the time and date as of which an interest rate for the 2012 Series B Bonds shall be determined, which date shall be determined as provided in the Twenty-Fifth Supplemental Resolution.

Rating Agency means Fitch if the 2012 Series B Bonds are then rated by Fitch, Moody's if the 2012 Series B Bonds are then rated by Moody's, and S&P if the 2012 Series B Bonds are then rated by S&P.

Record Date means (a) except as provided in clause (b) below, (i) with respect to an Interest Payment Date for 2012 Series B Bonds in the Term Mode or the Fixed Mode, the close of business on the fifteenth day (whether or not a Business Day) of the next preceding calendar month; and (ii) with respect to an Interest Payment Date for 2012 Series B Bonds in the Daily Mode, the Weekly Mode or the Flexible Mode and 2012 Series B Bank Bonds, the close of business on the Business Day immediately preceding such Interest Payment Date; and (b) in the case of any Interest Payment Date described in clause (a) of the definition thereof, the close of business on the Business Day immediately preceding such Interest Payment Date.

S&P means Standard & Poor's Ratings Services, a Standard and Poor's Financial Services LLC business, and its successors and assigns, and, if such business shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City.

Substitute Liquidity Facility means any standby bond purchase agreement (other than the Initial Liquidity Facility), revolving credit agreement, letter of credit, surety bond or other agreement or instrument under which any Person undertakes to make loans or provide funds to purchase 2012 Series B Bonds upon the tender (or deemed tender) thereof for purchase and as to which the conditions set forth in the Twenty-Fifth Supplemental Resolution are satisfied, in each case, with administrative provisions reasonably satisfactory to the Tender Agent.

Substitution Date means the Business Day on which the City (a) causes or permits a new bank or banks to be substituted for one or more of the Banks that is (or are) a party to the Liquidity Facility then in effect or (b) substitutes the Liquidity Facility then in effect with a Substitute Liquidity Facility, which Business Day shall be specified in a certificate of an authorized officer of the City delivered to the Notice Parties on or before the day on which the City shall notify the Tender Agent as to the substitution of the new bank or banks or shall deliver such Substitute Liquidity Facility to the Tender Agent, as the case may be (such day being hereinafter referred to in this paragraph as the "notice date"), and shall be (i) not later than the fifth Business Day immediately preceding the Liquidity Facility Expiration Date for the Liquidity Facility then in effect, (ii) if the 2012 Series B Bonds shall be in the Flexible Mode, not earlier than the day that is the latest Interest Payment Date in effect with respect to any 2012 Series B Bond, determined as of such notice date and (iii) if the 2012 Series B Bonds shall be in the Term Mode, a Rate Adjustment Date; any date specified as a Substitution Date in a notice of mandatory tender mailed to Holders of 2012 Series B Bonds shall be treated as a Substitution Date for purposes of the Twenty-Fifth Supplemental Resolution even if the substitution of the new bank(s) or the Substitute Liquidity Facility fails to occur.

Term Mode means the Interest Mode during which the 2012 Series B Bonds bear interest at Term Rates.

Term Rate means the interest rate applicable to the 2012 Series B Bonds during the Term Mode, determined as provided in the Twenty-Fifth Supplemental Resolution.

2012 Series B Bank Bond means any 2012 Series B Bond (or portion thereof or beneficial ownership interest therein) purchased by the Bank (or a nominee thereof) pursuant to the provisions of the Twenty-Fifth Supplemental Resolution; *provided, however*, that any such 2012 Series B Bond shall cease to be a 2012 Series B Bank Bond on the date on which such 2012 Series B Bond shall be delivered to a purchaser identified by the Remarketing Agent (or, to the extent permitted by the Liquidity Facility, the date on which the Bank elects not to sell such 2012 Series B Bond to a purchaser identified by the Remarketing Agent).

2012 Series B Bond Purchase Fund means the fund by that name created and established pursuant to the provisions of the Twenty-Fifth Supplemental Resolution and held by the Tender Agent separate and apart from any funds, accounts or subaccounts under the Resolution and which shall not constitute a fund or an account for purposes of the Resolution.

2012 Series B Bond Rate means the interest rate on 2012 Series B Bonds determined as provided in the Twenty-Fifth Supplemental Resolution, but shall not include the interest rate on any 2012 Series B Bank Bonds.

Weekly Mode means the Interest Mode during which the 2012 Series B Bonds bear interest at Weekly Rates.

Weekly Rate means the interest rate applicable to the 2012 Series B Bond during the Weekly Mode, determined as provided in the Twenty-Fifth Supplemental Resolution.

TABLE I
DEBT SERVICE REQUIREMENTS ON OUTSTANDING BONDS
(WITHOUT GIVING EFFECT TO ISSUANCE OF 2012 SERIES A BONDS)[1]
(ACCRUAL BASIS)

Period Ending September 30,	Total Debt Service on Bonds Outstanding Prior to Issuance of 2012 Series B Bonds[2]	Less: Debt Service on Refunded Bonds	Plus: Debt Service on 2012 Series B Bonds			Total Debt Service on Bonds to be Outstanding After Issuance of 2012 Series B Bonds (Without Giving Effect to Issuance of 2012 Series A Bonds)[2]
			Principal	Interest	Total	
2012	$	$	$	$	$	$
2013						
2014						
2015						
2016						
2017						
2018						
2019						
2020						
2021						
2022						
2023						
2024						
2025						
2026						
2027						
2028						
2029						
2030						
2031						
2032						
2033						
2034						
2035						
2036						
2037						
2038						
2039						
2040						
2041						
2042						
	$	$	$	$	$	$

(footnotes on following page)

(footnotes from previous page)

(1) Columns and rows may not add due to rounding.

(2) Debt service on the Outstanding Bonds has been calculated based upon the following assumptions:

(a) Interest on the 2005 Series B Bonds has been calculated at the actual rates of interest borne by such Bonds. The amounts shown in this table do not take into account amounts payable by and to the City pursuant to the 2005 Series B Swap Transaction. See note (2) to the table under "OUTSTANDING DEBT" in the Official Statement to which this APPENDIX F is attached. To the extent that the City makes or receives net payments under the 2005 Series B Swap Transaction during any fiscal year, net debt service on the 2005 Series B Bonds will be greater or less than the respective amount shown in this table for such fiscal year.

(b) [Interest on the 2005 Series C Bonds has been calculated at an assumed rate of 3.20% per annum, the fixed rate payable by the City under the 2005 Series C Swap Transaction. See note (3) to the table under "OUTSTANDING DEBT" in the Official Statement to which this APPENDIX F is attached. To the extent that amounts payable to the City under the 2005 Series C Swap Transaction during any fiscal year differ from interest payable on the 2005 Series C Bonds during such fiscal year, net debt service on the 2005 Series C Bonds will be greater or less than the respective amount shown in this table for such fiscal year.]

(c) [Interest on the 2006 Series A Bonds has been calculated at an assumed rate of 3.224% per annum, the fixed rate payable by the City under the 2006 Series A Swap Transaction. See note (4) to the table under "OUTSTANDING DEBT" in the Official Statement to which this APPENDIX F is attached. To the extent that amounts payable to the City under the 2006 Series A Swap Transaction during any fiscal year differ from interest payable on the 2006 Series A Bonds during such fiscal year, net debt service on the 2006 Series A Bonds will be greater or less than the respective amount shown in this table for such fiscal year.]

(d) Interest on the 2007 Series A Bonds has been calculated at an assumed rate of 3.944% per annum, the fixed rate payable by the City under the 2007 Series A Swap Transaction. See note (5) to the table under "OUTSTANDING DEBT" in the Official Statement to which this APPENDIX F is attached. To the extent that amounts payable to the City under the 2007 Series A Swap Transaction during any fiscal year differ from interest payable on the 2007 Series A Bonds during such fiscal year, net debt service on the 2007 Series A Bonds will be greater or less than the respective amount shown in this table for such fiscal year.

(e) Interest on the 2008 Series B Bonds has been calculated at an assumed rate of 4.229% per annum, the fixed rate payable by the City under the 2008 Series B Swap Transactions. See note (6) to the table under "OUTSTANDING DEBT" in the Official Statement to which this APPENDIX F is attached. To the extent that amounts payable to the City under the 2008 Series B Swap Transactions during any fiscal year differ from interest payable on the 2008 Series B Bonds during such fiscal year, net debt service on the 2008 Series B Bonds will be greater or less than the respective amount shown in this table for such fiscal year.

(f) Reflects total interest on the 2009 Series B Bonds, which the City has designated as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009, and is not net of the 35% cash subsidy payments that the City expects to receive from the United States Treasury with respect to such Bonds.

(g) Reflects total interest on the 2010 Series B Bonds, which the City has designated as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009, and is not net of the 35% cash subsidy payments that the City expects to receive from the United States Treasury with respect to such Bonds.

(h) Net of capitalized interest funded from the proceeds of the 2010 Series A, B and C Bonds and expected interest earnings thereon.

(i) Interest on the 2012 Series B Bonds has been calculated at an assumed rate of ____% per annum. [TO BE UPDATED]

TABLE II
DEBT SERVICE REQUIREMENTS ON OUTSTANDING BONDS
(GIVING EFFECT TO ISSUANCE OF 2012 SERIES A BONDS)[1]
(ACCRUAL BASIS)

Period Ending September 30,	Total Debt Service on Bonds Outstanding After Issuance of 2012 Series B Bonds (Without Giving Effect to Issuance of 2012 Series A Bonds)[2][3][4]	Less: Debt Service on 2012 Series A Refunded Bonds	Plus: Debt Service on 2012 Series A Bonds			Total Debt Service on Bonds to be Outstanding After Issuance of 2012 Series B Bonds and 2012 Series A Bonds[2][3][4]
			Principal	Interest	Total	
2012	$	$	$	$	$	$
2013						
2014						
2015						
2016						
-2017						
2018						
2019						
2020						
2021						
2022						
2023						
2024						
2025						
2026						
2027						
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2030						
2031						
2032						
2033						
2034						
2035						
2036						
2037						
2038						
2039						
2040						
2041						
2042						
	$	$	$	$	$	$

(footnotes on following page)

(footnotes from previous page)

(1) Columns and rows may not add due to rounding.

(2) Debt service on the Outstanding Bonds (including the 2012 Series A Refunded Bonds) has been calculated based upon the following assumptions:

(a) Interest on the 2005 Series B Bonds has been calculated at the actual rates of interest borne by such Bonds. The amounts shown in this table do not take into account amounts payable by and to the City pursuant to the 2005 Series B Swap Transaction. See note (2) to the table under "OUTSTANDING DEBT" in the Official Statement to which this APPENDIX F is attached. To the extent that the City makes or receives net payments under the 2005 Series B Swap Transaction during any fiscal year, net debt service on the 2005 Series B Bonds will be greater or less than the respective amount shown in this table for such fiscal year.

(b) [Interest on the 2005 Series C Bonds has been calculated at an assumed rate of 3.20% per annum, the fixed rate payable by the City under the 2005 Series C Swap Transaction. See note (3) to the table under "OUTSTANDING DEBT" in the Official Statement to which this APPENDIX F is attached. To the extent that amounts payable to the City under the 2005 Series C Swap Transaction during any fiscal year differ from interest payable on the 2005 Series C Bonds during such fiscal year, net debt service on the 2005 Series C Bonds will be greater or less than the respective amount shown in this table for such fiscal year.]

(c) [Interest on the 2006 Series A Bonds has been calculated at an assumed rate of 3.224% per annum, the fixed rate payable by the City under the 2006 Series A Swap Transaction. See note (4) to the table under "OUTSTANDING DEBT" in the Official Statement to which this APPENDIX F is attached. To the extent that amounts payable to the City under the 2006 Series A Swap Transaction during any fiscal year differ from interest payable on the 2006 Series A Bonds during such fiscal year, net debt service on the 2006 Series A Bonds will be greater or less than the respective amount shown in this table for such fiscal year.]

(d) Interest on the 2007 Series A Bonds has been calculated at an assumed rate of 3.944% per annum, the fixed rate payable by the City under the 2007 Series A Swap Transaction. See note (5) to the table under "OUTSTANDING DEBT" in the Official Statement to which this APPENDIX F is attached. To the extent that amounts payable to the City under the 2007 Series A Swap Transaction during any fiscal year differ from interest payable on the 2007 Series A Bonds during such fiscal year, net debt service on the 2007 Series A Bonds will be greater or less than the respective amount shown in this table for such fiscal year.

(e) Interest on the 2008 Series B Bonds has been calculated at an assumed rate of 4.229% per annum, the fixed rate payable by the City under the 2008 Series B Swap Transactions. See note (6) to the table under "OUTSTANDING DEBT" in the Official Statement to which this APPENDIX F is attached. To the extent that amounts payable to the City under the 2008 Series B Swap Transactions during any fiscal year differ from interest payable on the 2008 Series B Bonds during such fiscal year, net debt service on the 2008 Series B Bonds will be greater or less than the respective amount shown in this table for such fiscal year.

(f) Reflects total interest on the 2009 Series B Bonds, which the City has designated as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009, and is not net of the 35% cash subsidy payments that the City expects to receive from the United States Treasury with respect to such Bonds.

(g) Reflects total interest on the 2010 Series B Bonds, which the City has designated as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009, and is not net of the 35% cash subsidy payments that the City expects to receive from the United States Treasury with respect to such Bonds.

(h) Net of capitalized interest funded from the proceeds of the 2010 Series A, B and C Bonds and expected interest earnings thereon.

(3) Interest on the 2012 Series B Bonds has been calculated at an assumed rate of ____% per annum. [TO BE UPDATED]

(4) For purposes of this table, it has been assumed that the 2012 Series A Refunded Bonds will be legally defeased on _____ __, 2012. See "PLAN OF FINANCE – The 2012 Series A Bonds" in the Official Statement to which this APPENDIX F is attached.

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APPENDIX G

PROPOSED FORM OF OPINION OF BOND COUNSEL
RELATING TO THE 2012 SERIES B BONDS

Upon the delivery of the 2012 Series B Bonds, Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel to the City, proposes to render its final approving opinion with respect to the 2012 Series B Bonds in substantially the following form:

_____ __, 2012

City of Gainesville, Florida
Gainesville, Florida 32614-7117

City of Gainesville, Florida
Variable Rate
Utilities System Revenue Bonds,
2012 Series B

Ladies and Gentlemen:

We have acted as bond counsel to the City of Gainesville, Florida (the "City"), a municipal corporation of the State of Florida, in connection with the issuance of $_____ aggregate principal amount of Variable Rate Utilities System Revenue Bonds, 2012 Series B (the "2012 Series B Bonds"), issued pursuant to the Constitution and statutes of the State of Florida, and particularly Chapter 90-394, Laws of Florida, 1990, as amended, being the Charter of the City, Chapter 166, Part II, Florida Statutes, as amended, and other applicable provisions of law (collectively, the "Act"), and under and pursuant to Resolution No. R-83-27, duly adopted by the City on June 6, 1983, incorporating by reference and adopting a resolution entitled "Utilities System Revenue Bond Resolution" (the "Bond Resolution"), as heretofore supplemented, amended and restated, including as supplemented by a resolution duly adopted by the City on June 21, 2012 incorporating by reference and adopting a resolution entitled "Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution," authorizing the 2012 Series B Bonds (such Bond Resolution as so supplemented, amended and restated, including as supplemented by the Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution, being herein called the "Resolution"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

The Resolution provides that the 2012 Series B Bonds are being issued for the stated purpose of (a) providing the moneys required to refund certain of the City's outstanding Utilities System Revenue Bonds and (b) paying the costs of issuance of the 2012 Series B Bonds. The City heretofore has issued certain other Bonds under the Resolution and the City reserves the right to issue additional Bonds under the Resolution on the terms and conditions and for the purposes stated therein. Under the provisions of the Resolution, all Outstanding Bonds and all Parity Hedging Contract Obligations shall rank equally as to security and payment from the Trust Estate.

In such connection, we have reviewed a certified copy of the Resolution, the Tax Certificate executed and delivered by the City on the date hereof in connection with the issuance of the 2012 Series B Bonds (the "Tax Certificate"), an opinion of the City Attorney of the City, certificates of the City, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not

undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the 2012 Series B Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, including matters essential to the exclusion of interest on the 2012 Series B Bonds from gross income for federal income tax purposes, and of the legal conclusions contained in the opinions, referred to in the third paragraph hereof (except that we have not relied on any such legal conclusions that are to the same effect as the opinions set forth herein). Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the 2012 Series B Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the 2012 Series B Bonds, the Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against municipal corporations of the State of Florida. We express no opinion with respect to any indemnification, contribution, penalty, arbitration, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement of the City, dated July __, 2012, relating to the 2012 Series B Bonds or other offering material relating to the 2012 Series B Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The City has the right and power under the Act to adopt the Resolution, and the Resolution has been duly and lawfully adopted by the City, is in full force and effect, is valid and binding upon the City and is enforceable in accordance with its terms, and no other authorization for the Resolution is required. The Resolution creates the valid pledge which it purports to create of the Trust Estate, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

2. The City is duly authorized and entitled to issue the 2012 Series B Bonds and the 2012 Series B Bonds have been duly and validly authorized and issued by the City in accordance with the Constitution and statutes of the State of Florida, and particularly the Act, and the Resolution, and constitute the valid and binding obligations of the City as provided in the Resolution, enforceable in accordance with their terms and the terms of the Resolution, and entitled to the benefits of the Act and the Resolution. The 2012 Series B Bonds are direct and special obligations of the City and do not constitute a general indebtedness or a pledge of the full faith and credit of the City within the meaning of any constitutional or statutory provision or limitation of indebtedness, nor constitute a lien on any property of or in the City, other than the pledge of the Trust Estate as provided in the Resolution. No holder of the 2012 Series B Bonds shall have the right, directly or indirectly, to require or compel the exercise of the ad valorem taxing power of the City for the payment of the principal of or interest on the 2012 Series B Bonds or the making of any payments under the Resolution. The 2012 Series B Bonds rank equally as to security and payment with the Bonds that will be Outstanding after the issuance of the 2012 Series B Bonds and with all Parity Hedging Contract Obligations.

3. The City is legally authorized to operate the System, and to levy, collect, receive, hold and apply rates and charges for services provided from the System, as provided in the Resolution.

4. Interest on the 2012 Series B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the 2012 Series B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income.

Except as stated in paragraph 4 hereof, we express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2012 Series B Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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APPENDIX H

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

Upon the delivery of the 2012 Series B Bonds, the City proposes to enter into a Continuing Disclosure Certificate with respect to the 2012 Series B Bonds in substantially the following form:

CONTINUING DISCLOSURE CERTIFICATE
RELATING TO
CITY OF GAINESVILLE, FLORIDA
VARIABLE RATE
UTILITIES SYSTEM REVENUE BONDS,
2012 SERIES B

WHEREAS, the City Commission (the "Commission") of the City of Gainesville, Florida (the "City") heretofore has authorized the issuance of the City's $_____ Variable Rate Utilities System Revenue Bonds, 2012 Series B (the "Bonds") pursuant to the Utilities System Revenue Bond Resolution duly adopted by the City on June 6, 1983, as heretofore amended, restated and supplemented (the "Resolution"), including as supplemented by the Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution thereto authorizing the Bonds adopted by the City on June 21, 2012; and

WHEREAS, by resolution adopted by the Commission on June 21, 2012, the Commission has found and determined that it is necessary, in connection with the authorization and sale of the Bonds, and in order to assist the Participating Underwriters (hereinafter defined) in complying with the Rule (hereinafter defined), that the City agree to provide certain continuing disclosure information with respect to its combined electric, natural gas, water, wastewater and telecommunications utilities system (as more particularly defined in the Resolution, the "System") and the Bonds; and

WHEREAS, the execution and delivery of this Disclosure Certificate has been authorized by the Commission;

NOW, THEREFORE, the City hereby agrees as follows:

SECTION 1. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined in this Disclosure Certificate, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Audited Financial Statements" shall mean the City's audited financial statements for the System for its most recent fiscal year, prepared in accordance with the accounting principles described in Note 1 to the City's audited financial statements set forth in Appendix B to the Official Statement (or such other accounting principles as may be applicable to the City in the future pursuant to applicable law).

"Beneficial Owner" shall mean any person holding a beneficial ownership interest in Bonds through nominees or depositories (including any person holding such interest through the book-entry only system of The Depository Trust Company).

"Disclosure Certificate" shall mean this certificate, as the same may be amended or supplemented from time to time in accordance with the provisions hereof.

"Dissemination Agent" shall mean any person or entity appointed by the City and which has entered into a written agreement with the City pursuant to which such person or entity agrees to perform the duties and obligations of Dissemination Agent under this Disclosure Certificate.

"Listed Events" shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Official Statement" shall mean the Official Statement of the City, dated July __, 2012, relating to the Bonds, as amended or supplemented.

"Participating Underwriter" shall mean each original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time, together with all interpretive guidances or other official interpretations or explanations thereof that are promulgated by the SEC.

"SEC" shall mean the United States Securities and Exchange Commission.

SECTION 2. Purpose of this Disclosure Certificate; Obligated Person; Disclosure Certificate to Constitute Contract.

(a) This Disclosure Certificate is executed and delivered on behalf of the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

(b) The combined utility funds of the City is hereby determined to be the only "obligated person" within the meaning of the Rule for whom financial information or operating data is presented in the Official Statement.

(c) In consideration of the purchase and acceptance of any and all of the Bonds by those who shall hold the same or shall own beneficial ownership interests therein from time to time, this Disclosure Certificate shall be deemed to be and shall constitute a contract between the City and the Holders and Beneficial Owners from time to time of the Bonds; and the covenants and agreements herein set forth to be performed on behalf of the City shall be for the benefit of the Holders and Beneficial Owners of any and all of the Bonds.

SECTION 3. Provision of Annual Reports.

(a) The City hereby covenants and agrees that it shall, or shall cause the Dissemination Agent to, not later than six months after the end of each Fiscal Year (presently, by each March 30; each such date being referred to herein as a "Final Submission Date"), commencing with the report for the Fiscal Year ending September 30, 2012, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that any Audited Financial Statements may be submitted separately from the balance of the Annual Report and later than the Final

Submission Date if they are not available by that Date. If the fiscal year for the City changes, the City shall give notice of such change in a filing with the MSRB.

(b) If the City shall have appointed a Dissemination Agent hereunder, not later than fifteen (15) business days prior to each Final Submission Date (each such date being referred to herein as a "Preliminary Submission Date"), the City shall provide the Annual Report to such Dissemination Agent. If by a Preliminary Submission Date, the Dissemination Agent, if any, has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with subsection (a).

(c) If the City or the Dissemination Agent (if any), as the case may be, has not furnished an Annual Report to the MSRB by a Final Submission Date, the City or the Dissemination Agent, as applicable, shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached as Exhibit A to this Disclosure Certificate.

(d) The City (or, in the event that the City shall appoint a Dissemination Agent hereunder, the Dissemination Agent) shall file the Annual Report with the MSRB on or before the Final Submission Date. In addition, if the City shall have appointed a Dissemination Agent hereunder, the Dissemination Agent shall file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

SECTION 4. Content of Annual Reports. The City's Annual Report shall contain or include by reference the following:

(i) The Audited Financial Statements. If any Audited Financial Statements are not available by the Final Submission Date, the Annual Report shall contain unaudited financial statements for the System in a format similar to the audited financial statements most recently prepared for the System and such Audited Financial Statements shall be filed in the same manner as the Annual Report when and if they become available.

(ii) Updated versions of the financial information and operating data contained in the Official Statement under the following captions:

a. "ADDITIONAL FINANCING REQUIREMENTS";

b. "THE ELECTRIC SYSTEM – Customers", "– Energy Sales", "– Energy Supply System" and "– Capital Improvement Program";

c. "THE NATURAL GAS SYSTEM – Customers", "– Natural Gas Supply" and "– Capital Improvement Program";

d. "THE WATER SYSTEM – Customers", "– Water Treatment and Supply" and "– Capital Improvement Program";

e. "THE WASTEWATER SYSTEM – Customers", "– Treatment" and "– Capital Improvement Program";

f. "THE TELECOMMUNICATIONS SYSTEM – Customers" and "– Capital Improvement Program";

g. "RATES";

h. "SUMMARY OF COMBINED NET REVENUES"; and

i. "MANAGEMENT'S DISCUSSION OF SYSTEM OPERATIONS".

Any or all of the items listed above may be included by specific reference to other documents, including annual reports of the City or official statements relating to debt or other securities issues of the City or other entities, which have been submitted to the MSRB or the SEC. If the document included by reference is a final official statement (as defined in the Rule), it must be available from the MSRB. The City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) The City hereby covenants and agrees that it shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;

2. Unscheduled draws on debt service reserves reflecting financial difficulties;

3. Unscheduled draws on credit enhancements reflecting financial difficulties;

4. Substitution of credit or liquidity providers, or their failure to perform;

5. Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

6. Tender offers;

7. Defeasances;

8. Rating changes; or

9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The City hereby covenants and agrees that it shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

2. Modifications to rights of Bond holders;

3. Optional, unscheduled or contingent Bond calls;

4. Release, substitution or sale of property securing repayment of the Bonds;

5. Non-payment related defaults;

6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Upon the occurrence of a Listed Event described in Section 5(a), or upon the occurrence of a Listed Event described in Section 5(b) which the City determines would be material under applicable federal securities laws, the City shall, or shall cause the Dissemination Agent to, within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsection (b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

SECTION 6. Management's Discussion of Items Disclosed in Annual Reports or as Significant Events. If an item required to be disclosed in the City's Annual Report under Section 4, or as a Listed Event under Section 5, would be misleading without discussion, the City additionally covenants and agrees that it shall provide a statement clarifying the disclosure in order that the statement made will not be misleading in the light of the circumstances under which it is made.

SECTION 7. Format of Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 8. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. In addition, in the event that the Rule shall be amended, modified or repealed such that compliance by the City with its obligations under this Disclosure Certificate no longer shall be required in any or all respects, then the City's obligations under this Disclosure Certificate shall terminate to a like extent. If either such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in a filing with the MSRB.

SECTION 9. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

SECTION 10. Amendment; Waiver.

(a) Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, (i) if such amendment or waiver is supported by an opinion of counsel experienced in federal securities laws appointed by the City to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule, taking into account any subsequent change in or official interpretation of the Rule, and (ii) as to any amendment to this Disclosure Certificate, if the following conditions are complied with:

(i) The amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the City, or type of business conducted by the City in connection with the System;

(ii) The undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) The amendment does not materially impair the interests of Holders or Beneficial Owners of the Bonds, as determined either by parties unaffiliated with the City (such as bond counsel to the City), or by approving vote of Holders pursuant to the terms of the Resolution at the time of the amendment.

(b) The Annual Report containing the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

SECTION 11. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating, or require the City to disseminate, any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Certificate, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

SECTION 12. Default.

(a) In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of any Outstanding Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate.

(b) Notwithstanding the foregoing, no Holder or Beneficial Owner of the Bonds shall have the right to challenge the content or adequacy of the information provided pursuant to Sections 3, 4 or 5 of this Disclosure Certificate by mandamus, specific performance or other equitable proceedings unless the Holders or Beneficial Owners of 2012 Series B Bonds representing at least 25% in aggregate principal amount of the 2012 Series B Bonds shall join in such proceedings.

(c) A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedies under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be those described in subsection (a) above.

(d) Under no circumstances shall any person or entity be entitled to recover monetary damages hereunder in the event of any failure of the City to comply with this Disclosure Certificate.

SECTION 13. Duties, Immunities and Liabilities of Dissemination Agent. Any Dissemination Agent appointed hereunder shall have only such duties as are specifically set forth in this Disclosure Certificate, and shall have such rights, immunities and liabilities as shall be set forth in the written agreement between the City and such Dissemination Agent pursuant to which such Dissemination Agent agrees to perform the duties and obligations of Dissemination Agent under this Disclosure Certificate.

SECTION 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, if any, and the Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 15. Governing Law. This Disclosure Certificate shall be deemed to be a contract made under the Rule and the laws of the State of Florida, and for all purposes shall be construed and interpreted in accordance with, and its validity governed by, the Rule and the laws of such State.

Dated: _____ __, 2012

CITY OF GAINESVILLE, FLORIDA

By:_____
General Manager for Utilities

Approved as to Form and Legality

_____
City Attorney

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Gainesville, Florida

Name of Bond Issue: $_____ Variable Rate Utilities System Revenue Bonds, 2012 Series B

Date of Issuance: _____ __, 2012

NOTICE IS HEREBY GIVEN that the City of Gainesville, Florida (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3(a) of the Continuing Disclosure Certificate executed and delivered on behalf of the City relating to the above-named Bonds. [The City [has advised the undersigned that the City] anticipates that the Annual Report will be filed by _____.]

Dated:_____

[CITY OF GAINESVILLE, FLORIDA]
[_____, as Dissemination Agent
on behalf of the City of Gainesville, Florida]

[cc: City of Gainesville, Florida]

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