Item #170041
June 1, 2017

**REOFFERING MEMORANDUM DATED JUNE _____, 2017**

**REMARKETING: NOT NEW ISSUE - BOOK-ENTRY ONLY**

*On the date of issuance of the 2012 Series B Bonds described herein, Orrick, Herrington & Sutcliffe LLP, as Bond Counsel to the City (the "Initial Bond Counsel"), rendered an opinion that, based upon an analysis of then existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 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 Initial Bond Counsel was 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 the Initial Bond Counsel observed that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. The Initial Bond Counsel also was of the opinion that the 2012 Series B Bonds and the interest thereon are exempt from taxation under existing laws of the State of Florida, except as to estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations, banks and savings associations. The Initial Bond Counsel expressed 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. On the date of the execution and delivery of the Citibank Liquidity Facility referred to herein, Holland & Knight LLP, Lakeland, Florida, Bond Counsel to the City ("Bond Counsel") rendered an opinion to the effect that the substitution of the Citibank Liquidity Facility for Sumitomo Bank Liquidity Facility (as defined herein) will not, in and of itself, adversely affect the exclusion of interest on the 2012 Series B Bonds from gross income for purposes of federal tax taxation. Bond Counsel, however, is not rendering any opinion on the current tax status of the 2012 Series B Bonds. See "TAX MATTERS" herein.*

$100,470,000
City of Gainesville, Florida
Variable Rate
Utilities System Revenue Bonds,
2012 Series B
(CUSIP No. 362848 RR6)


**RATINGS: See "RATINGS" herein**

**Original Issue Date: August 2, 2012** **Due: October 1, 2042**

The purpose of this Reoffering Memorandum is to provide information in connection with the substitution of the liquidity facility and the reoffering from time to time in the secondary market of $100,470,000 in aggregate principal amount of Variable Rate Utilities System Revenue Bonds, 2012 Series B (the "2012 Series B Bonds") heretofore issued by the City of Gainesville, Florida (the "City").

The 2012 Series B Bonds are 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. Purchases of 2012 Series B Bonds may be made in book-entry form only, in the Authorized Denominations referred to herein. See "Book-Entry Only System" herein. U.S. Bank National Association, New York, New York is Trustee, Paying Agent and Bond Registrar under the Resolution (as defined herein) and has been appointed by the City as the Tender Agent for 2012 Series B Bonds.

The 2012 Series B Bonds bear interest at variable rates, as more fully described herein. The 2012 Series B Bonds currently bear interest at the Weekly Rates (as defined herein). While the 2012 Series B Bonds bear interest at Weekly Rates, interest is payable on the first Business Day (as defined herein) of 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.

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.

After June 29, 2017, liquidity support in connection with tenders for purchase of the 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 12.00% and on the basis of a 365-day year) will be provided by Citibank, N.A. (the "Bank"), pursuant to a standby bond purchase agreement between the Bank and the City (the "Citibank Liquidity Facility"). See "CITIBANK LIQUIDITY FACILITY" and "THE BANK" herein. The obligation of the Bank to purchase 2012 Series B Bonds under the Citibank Liquidity Facility will, however, be subject to certain conditions, and such obligation may be terminated or suspended without prior notice or payment thereunder under certain circumstances. The Citibank Liquidity Facility has an initial stated termination date of _____, 2020. 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 Citibank Liquidity Facility, and is not payable from any funds of the City.

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.

*Certain legal matters were passed upon in connection with the original issuance of the 2012 Series B Bonds by Orrick, Herrington & Sutcliffe LLP, New York, New York, former Bond Counsel to the City, and by Marion J. Radson, Esq., former City Attorney of the City. Certain legal matters in connection with the substitution of the existing liquidity facility with the Citibank Liquidity Facility were passed upon for the City by Holland & Knight LLP, Lakeland, Florida Bond Counsel to the City, and by Nicolle M. Shalley, Esq., City Attorney of the City. Bryant Miller Olive P.A. is Disclosure Counsel to the City. Certain legal matters with respect to the Citibank Liquidity Facility and the Bank have been passed upon for the Bank by Kutak Rock LLP, Washington D.C., counsel to the Bank.*

**J.P. Morgan**

CITY OF GAINESVILLE, FLORIDA
CITY OFFICIALS

Lauren Poe ..... Mayor
David Arreola ..... Commissioner
Harvey M. Budd ..... At Large, Commissioner
Charles E. Goston ..... Commissioner
Adrian Hayes-Santos ..... Commissioner
Harvey Ward ..... Commissioner
Helen K. Warren ..... At Large, Commissioner

CHARTER OFFICERS

Anthony R. Lyons ..... City Manager
Carlos L. Holt ..... City Auditor
Torey L. Alston ..... Equal Opportunity Director
Kurt M. Lannon ..... Clerk of the Commission
Nicolle M. Shalley, Esq. ..... City Attorney

UTILITIES SYSTEM

Edward J. Bielarski, Jr.* ..... General Manager for Utilities
Thomas R. Brown, P.E. ..... Chief Operating Officer
Gary L. Baysinger ..... Energy Delivery Officer
Justin M. Locke ..... Chief Financial Officer
Anthony Cunningham ..... Water/Wastewater Officer
William J. Shepherd ..... Chief Customer Officer
Dino De Leo ..... Energy Supply Officer
J. Lewis Walton ..... Chief Business Services Officer
Keino Young, Esq. ..... Utilities Attorney

BOND COUNSEL

Holland & Knight LLP
Lakeland, Florida

DISCLOSURE COUNSEL

Bryant Miller Olive P.A.
Tampa, Florida

FINANCIAL ADVISOR

Public Financial Management, Inc.
Charlotte, North Carolina

*Also a Charter Officer.

No dealer, broker, salesman or other person has been authorized by the City to give any information or to make any representations in connection with the 2012 Series B Bonds, other than as contained in this Reoffering Memorandum, and, if given or made, such information or representations must not be relied upon as having been authorized by the City. This Reoffering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2012 Series B Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from the City, DTC, the Bank, and other sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the City with respect to any information provided by others. The information and expressions of opinion stated herein are subject to change, and neither the delivery of this Reoffering Memorandum nor any sale made hereunder shall create, under any circumstances, any implication that there has been no change in the matters described herein since the date hereof.

The Remarketing Agent has reviewed the information in this Reoffering Memorandum in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information.

All summaries set forth or incorporated herein of documents and agreements are qualified in their entirety by reference to such documents and agreements, and all summaries herein of the 2012 Series B Bonds are qualified in their entirety by reference to the form thereof included in the aforesaid documents and agreements.

NO REGISTRATION STATEMENT RELATING TO THE 2012 SERIES B BONDS HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC") OR WITH ANY STATE SECURITIES COMMISSION. IN MAKING ANY INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATIONS OF THE CITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE 2012 SERIES B BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SEC OR ANY STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. THE FOREGOING AUTHORITIES HAVE NOT PASSED UPON THE ACCURACY OR ADEQUACY OF THIS REOFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

CERTAIN STATEMENTS INCLUDED OR INCORPORATED BY REFERENCE IN THIS REOFFERING MEMORANDUM CONSTITUTE "FORWARD LOOKING STATEMENTS." SUCH STATEMENTS GENERALLY ARE IDENTIFIABLE BY THE TERMINOLOGY USED, SUCH AS "PLAN," "EXPECT," "ESTIMATE," "BUDGET" OR OTHER SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR, SUBJECT TO ANY CONTRACTUAL OR LEGAL RESPONSIBILITIES TO THE CONTRARY.

THIS REOFFERING MEMORANDUM DOES NOT CONSTITUTE A CONTRACT BETWEEN THE CITY AND ANY ONE OR MORE OF THE OWNERS OF THE 2012 SERIES B BONDS.

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**REOFFERING MEMORANDUM**
**RELATING TO**
**$100,470,000**
**CITY OF GAINESVILLE, FLORIDA**
**VARIABLE RATE UTILITIES SYSTEM**
**REVENUE BONDS**
**2012 SERIES B**

## INTRODUCTORY STATEMENT

### General

This Reoffering Memorandum, which includes the cover page and inside cover page hereof and the appendices attached hereto, provides certain information in connection with the substitution of the liquidity facility and reoffering in the secondary market from time to time of $100,470,000 in aggregate principal amount of Variable Rate Utilities System Revenue Bonds, 2012 Series B (the "2012 Series B Bonds") previously issued by the City of Gainesville, Florida ("Gainesville" or the "City"). The City's mailing address is Utilities Administration Building, 301 SE 4th Avenue, Gainesville, Florida 32601. The City can be contacted by telephone at (352) 334-3434.

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 were issued pursuant to the Amended and Restated Utilities System Revenue Bond Resolution adopted by the City on June 30, 2003, as amended, supplemented and restated (the "Resolution"), including as supplemented by the Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution, authorizing the 2012 Series B Bonds, adopted by the City on June 21, 2012, as amended (the "Twenty-Fifth Supplemental Bond Resolution"); Chapter 166, Part II, Florida Statutes; and the Charter. U.S. Bank National Association currently is Trustee, Paying Agent and Bond Registrar under the Resolution.

The 2012 Series B Bonds are payable from and secured on a parity with all other bonds issued under the Resolution by a pledge of and lien on the Trust Estate (hereinafter defined). As of October 1, 2016, there were $871,540,000 aggregate principal amount of bonds Outstanding (and as defined in) under the Resolution. The 2012 Series B Bonds were issued by the City to provide funds to refund certain then-outstanding Utilities System Revenue Bonds that had been issued to finance or refinance costs of acquisition and construction of certain improvements to the electric system, natural gas system, water system, wastewater system and telecommunications system owned by the City and operated as a single combined public utility (the "System" or "Gainesville Regional Utilities" ("GRU")).

The 2012 Series B Bonds constitute "Bonds" within the meaning of the Resolution. The 2012 Series B Bonds, the Bonds Outstanding on the date of this Reoffering Memorandum and any additional parity bonds (excluding Subordinated Indebtedness) 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 and its plan of financing, see "OUTSTANDING DEBT" and "ADDITIONAL FINANCING REQUIREMENTS" herein. APPENDIX E

hereto shows total debt service requirements on all Bonds Outstanding as of the date of this Reoffering Memorandum.

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.

In addition to its Outstanding Bonds, as of October 1, 2016, the City also had outstanding $45,900,000 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. On March 14, 2017, the City has issued an additional $5,000,000 of Series C CP Notes to finance capital expenditures in water and wastewater systems, resulting in a total outstanding aggregate principal amount of $50,900,000 Series C CP Notes. 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, 2016, the City had outstanding $8,000,000 in aggregate principal amount of its Series D Taxable CP Notes. The CP Notes constitute Subordinated Indebtedness under (and as defined in) the Resolution, and are issued pursuant to the Amended and Restated Subordinated Utilities System Revenue Bond Resolution adopted by the City on December 8, 2003, as heretofore amended, supplemented and restated. Subordinated Indebtedness is subordinate in all respects to Bonds issued under the Resolution.

**Liquidity Support for the 2012 Series B Bonds**

Liquidity support in connection with tenders for purchase of 2012 Series B Bonds currently is provided by Sumitomo Mitsui Banking Corporation, acting through its New York branch ("Sumitomo Bank"), pursuant to a standby bond purchase agreement, dated as of January 1, 2015, between the City and Sumitomo Bank (the "Sumitomo Bank Liquidity Facility").

On June 12, 2017, the City entered into a standby bond purchase agreement with Citibank, N.A. (the "Bank"), with respect to the 2012 Series B Bonds ("Citibank Liquidity Facility"). After June 29, 2017, liquidity support in connection with tenders for purchase of the 2012 Series B Bonds will be provided by the Bank. The obligation of the Bank to purchase 2012 Series B Bonds under the Citibank Liquidity Facility will be subject to certain conditions, and such obligation may be terminated or suspended without prior notice under certain circumstances. See "CITIBANK LIQUIDITY FACILITY" herein.

The Citibank Liquidity Facility has an initial stated termination date of _____, 2020 (such date, as the same may be extended as provided in the Citibank Liquidity Facility, is referred to herein as

the Citibank Liquidity Facility's "Stated Termination Date"). The Citibank Liquidity Facility contains provisions for renewal, in the sole discretion of the Bank.

With respect to the 2012 Series B Bonds, the Twenty-Fifth Supplemental Resolution contains provisions for obtaining a Substitute Liquidity Facility (as defined in APPENDIX D hereto) in substitution for the Liquidity Facility then in effect. See "THE 2012 SERIES B BONDS – Substitution of Liquidity Facility" herein.

**Remarketing Agent**

J.P. Morgan Securities LLC ("JPMS") is the remarketing agent for the 2012 Series B Bonds pursuant to a remarketing agreement, dated as of August 1, 2012, between JPMS and the City (the "Remarketing Agreement").

**Tender Agent**

U.S. Bank National Association New York, New York ("U.S. Bank") is the tender agent for the 2012 Series B Bonds (in such capacity, the "Tender Agent"). U.S. Bank has entered into a tender agency agreement with the City, dated as of August 1, 2012, with respect to the 2012 Series B Bonds (the "Tender Agency Agreement").

**The City and the System**

For general information with respect to the City see "APPENDIX A – General Information Regarding the City" attached hereto. For information with respect 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"), including the service areas, history, organization, operations and management, regulatory matters, capital improvement program, additional financing requirements and historical financial information, see "APPENDIX C – The System" attached hereto.

**Continuing Disclosure**

The City has covenanted for the benefit of the owners of the 2012 Series B Bonds in a Continuing Disclosure Certificate entered into by the City simultaneously with the original delivery of the 2012 Series B Bonds, to comply with certain covenants in order to assist the underwriter upon the original issuance of the 2012 Series B Bonds in complying with Securities and Exchange Commission Rule 15c2-12. See "CONTINUING DISCLOSURE" herein.

**Book-Entry Only System**

The 2012 Series B Bonds have been issued in book-entry form through the book-entry system of DTC. Any 2012 Series B Bonds issued in book-entry form through the book-entry system of DTC shall be subject to the discussion set forth below.

THE FOLLOWING INFORMATION CONCERNING THE DEPOSITORY TRUST COMPANY ("DTC") AND DTC'S BOOK-ENTRY ONLY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE CITY BELIEVES TO BE RELIABLE. THE CITY TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE 2012 SERIES B BONDS, AS NOMINEE OF DTC, CERTAIN REFERENCES IN THIS REOFFERING MEMORANDUM TO THE 2012 SERIES B BONDHOLDERS OR REGISTERED OWNERS OF THE 2012 SERIES B BONDS SHALL MEAN CEDE & CO. AND WILL NOT MEAN THE BENEFICIAL OWNERS OF THE 2012 SERIES B BONDS. THE DESCRIPTION WHICH FOLLOWS OF THE PROCEDURES AND RECORD KEEPING WITH RESPECT TO BENEFICIAL OWNERSHIP INTERESTS IN THE 2012 SERIES B BONDS, PAYMENT OF INTEREST AND PRINCIPAL ON THE 2012 SERIES B BONDS TO DIRECT PARTICIPANTS (AS HEREINAFTER DEFINED) OR BENEFICIAL OWNERS OF THE 2012 SERIES B BONDS, CONFIRMATION AND TRANSFER OF BENEFICIAL OWNERSHIP INTERESTS IN THE 2012 SERIES B BONDS, AND OTHER RELATED TRANSACTIONS BY AND BETWEEN DTC, THE DIRECT PARTICIPANTS AND BENEFICIAL OWNERS OF THE 2012 SERIES B BONDS IS BASED SOLELY ON INFORMATION FURNISHED BY DTC. ACCORDINGLY, THE CITY NEITHER MAKES NOR CAN MAKE ANY REPRESENTATIONS CONCERNING THESE MATTERS.

DTC will act as 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 2012 Series B Bonds certificate will be issued for the 2012 Series B Bonds in the aggregate principal amount thereof, and will be deposited with DTC.

DTC, the world's largest securities 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 3.6 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 Direct Participants and the Indirect Participants are collectively referred to herein as the "DTC Participants." DTC has an S&P Global Inc. ("S&P") rating of AA+. The DTC Rules applicable to its DTC Participants are on file with the Securities and Exchange Commission (the "SEC"). More information about DTC can be found at www.dtcc.com.

Purchases of 2012 Series B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2012 Series B Bonds on DTC's records. The ownership interest of each actual purchaser of each 2012 Series B Bondholder ("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 the 2012 Series B Bonds, except in the event that use of the book-entry system for the 2012 Series B Bonds is discontinued.

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 the 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.

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 security documents. 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. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2012 Series B Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City 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 2012 Series B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal and interest on the 2012 Series B Bonds will be made 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, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by DTC 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 DTC Participant and not of DTC or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, 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.

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. Under such circumstances, in the event that a successor depository is not obtained, the 2012 Series B Bonds are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2012 Series B Bonds certificates will be printed and delivered to DTC.

**Other**

Certain capitalized terms used in this Reoffering Memorandum have the same meanings assigned to such terms in the Resolution, except as otherwise indicated herein. See "Copies of the Resolution and the Twenty-Fifth Supplemental Bond Resolution" attached hereto as APPENDIX D. In addition, certain definitions applicable to the 2012 Series B Bonds are set forth in "Copies of the Resolution and the Twenty-Fifth Supplemental Bond Resolution" in APPENDIX D hereto.

There follows in this Reoffering Memorandum brief descriptions of the security for the Bonds, the 2012 Series B Bonds, the Citibank Liquidity Facility, the Bank, the System, the City, 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 as described under "INTRODUCTORY STATEMENT – General" herein.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Reoffering Memorandum 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), the Clean Power Plan (as 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, such as potential legislation for the creation of a utility authority, including the Appendices attached hereto.

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 Reoffering Memorandum (including the Appendices attached hereto) and making an independent evaluation of the information contained herein, including the possible effects of the factors described above.

## OUTSTANDING DEBT

The following table sets forth the outstanding debt of the City issued for the System as of October 1, 2016.

**Outstanding Debt of the City Issued for the System(1)**

| | As of October 1, 2016[1] | | |
|---|---|---|---|
| Description | Interest Rates | (Unaudited) Due Dates (October 1) | Principal Outstanding(1) |
| Utilities System Revenue Bonds | | | |
| 2005 Series A | 4.75% | 2029 – 2036 | $405,000 |
| 2005 Series B (federally taxable) | 5.31%(2)(3) | 2017 – 2021 | 17,670,000 |
| 2005 Series C | Variable(2)(4) | 2026 | 26,885,000 |
| 2006 Series A | Variable(2)(5) | 2026 | 18,410,000 |
| 2007 Series A | Variable(2)(6) | 2036 | 136,900,000 |
| 2008 Series A (federally taxable) | 5.02– 5.27%(2)(3) | 2017 – 2020 | 22,150,000 |
| 2008 Series B | Variable(2)(7) | 2038 | 90,000,000 |
| 2009 Series B (federally taxable) | 4.498 – 5.655% | 2017 – 2039 | 152,400,000 |
| 2010 Series A (federally taxable) | 5.874% | 2027 – 2030 | 12,930,000 |
| 2010 Series B (federally taxable) | 6.024% | 2034 – 2040 | 132,445,000 |
| 2010 Series C | 5.00 – 5.25% | 2017 – 2034 | 14,195,000 |
| 2012 Series A | 2.50 – 5.00% | 2021 – 2028 | 81,860,000 |
| 2012 Series B | Variable(8) | 2042 | 100,470,000 |
| 2014 Series A | 2.50% 5.00% | 2021 – 2044 | 37,835,000 |
| 2014 Series B | 3.125 – 5.00% | 2017 – 2036 | 26,985,000 |
| Total Utilities System Revenue Bonds | | | $871,540,000 |
| | | | |
| Utilities System Commercial Paper Notes | | | |
| Series C | Variable(2)(9) | (10) | $45,900,000(11) |
| Series D | Variable(2) | (12) | 8,000,000 |
| Total Subordinated Bonds | | | $53,900,000 |

(1) Information in the table, Outstanding Debt of the City Issued for the System, reflects principal balances as of October 1, 2016. Given the audit reflects the fiscal year ending on September 30th, the principal amounts in

the audit will be different than the principal amounts in the table if that series of bonds had principal amortization on October 1, 2016.

(2) See Note 9 to the audited financial statement of the System for the fiscal year ending September 30, 2016 included as Appendix B to this Reoffering Memorandum for a discussion of the various risks borne by the City relating to interest rate swap transactions.

(3) 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 Utilities System Revenue Bonds, 2005 Series B (Federally Taxable) (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 "Aa2" from Moody's Investors Service, Inc. ("Moody's") and a counterparty credit rating of "AA-" from S&P. The term of the 2005 Series B Swap Transaction was identical to the term of the 2005 Series B Bonds, and the notional amount of the 2005 Series B Swap Transaction was scheduled to amortize at the same times and in the same amounts as the pro rata portion of the 2005 Series B Bonds to which it related. 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 was to synthetically convert 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. On August 2, 2012, $31,560,000 of the taxable 2005 Series B Bonds (the "Refunded Taxable 2005 Bonds") were redeemed with proceeds from the issuance of the City's tax-exempt Variable Rate Utilities System Revenue Bonds, 2012 Series B (the "2012 Series B Bonds"). As a result, the 2005 Series B Swap Transaction no longer served as a hedge against the 2005 Series B Bonds. However, since the City had other taxable Bonds outstanding, the City left 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 does not specifically match, in terms of its notional amount and amortization, any particular Series and maturity of such other taxable Bonds.

(4) In connection with the issuance of the 2005 Series C Bonds, the City 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 "Aa3" from Moody's and a counterparty credit rating of "A+" from S&P. The term of the 2005 Series C Swap Transaction was identical to the term of the 2005 Series C Bonds, and the notional amount of the 2005 Series C Swap Transaction was scheduled to 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 was to synthetically fix 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. On August 2, 2012, $17,570,000 of the 2005 Series C Bonds (such portion of the 2005 Series C Bonds is referred to herein as the "Refunded Tax-Exempt 2005 Bonds") were redeemed with proceeds from the issuance of the 2012 Series B Bonds. The City left 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 does not specifically match, in terms of its notional amount and amortization, the 2012 Series B Bonds.

(5) In contemplation of the issuance of the 2006 Series A Bonds, in September 2005, the City entered into a forward-starting floating-to-fixed rate interest rate swap transaction (as amended, 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 "Aa2" from Moody's and a counterparty credit rating of "AA-" from S&P. The term of the 2006 Series A Swap Transaction was identical to the term of the 2006 Series A Bonds, and the notional amount of the 2006 Series A Swap Transaction was scheduled to 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 was to synthetically fix 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. On August 2, 2012, $25,930,000 of the 2006 Series A Bonds (such portion of the 2006 Series A Bonds is referred to herein the "Refunded Tax-Exempt 2006 Bonds") were redeemed with proceeds from the issuance of the 2012 Series B Bonds. The City left 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 does not specifically match, in terms of its notional amount and amortization, the 2012 Series B Bonds.

(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 "Aa2" from Moody's and a financial program rating of "AA-" 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 synthetically fix 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.

(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, Series 2008B (the "2008 Series B Bonds"). The counterparties to the 2008 Series B Swap Transactions currently have a counterparty risk rating of "Aa3" from Moody's and a financial program rating of "A+" from S&P, and a counterparty risk rating of "Aa3" 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 synthetically fix 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.

(8) The interest rates on the 2012 Series B Bonds are hedged, in part, by the 2005 Series C Swap Transaction and the 2006 Series A Swap Transaction. See notes (3) and (4) 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 "A" from Fitch Ratings, Inc. ("Fitch"), "Baa1" from Moody's and "BBB+" 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 synthetically fix 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. 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.

(11) The City has issued an additional $5,000,000 of Series C CP Notes on March 14, 2017 to finance capital expenditures in water and wastewater systems.

(12) The Series D CP Notes will mature no more than 270 days from their date of issuance, but in no event later than June 14, 2030.

APPENDIX E hereto shows total debt service requirements on all Bonds Outstanding as of October 1, 2016.

## SECURITY FOR THE 2012 SERIES B 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 and Subordinated Indebtedness.

**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 "APPENDIX D - Copies of the Resolution and the Twenty-Fifth Supplemental Bond Resolution" attached 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 most recent eighteen months preceding the issuance of Bonds of such Series, as determined from the financial statements of the System, Net Revenues were at least equal to 1.25 times the Aggregate Debt Service during such twelve-month 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 estimated by the City to be outstanding is to be paid from Bond proceeds, Net Revenues are estimated to be at least equal to 1.40 times the Adjusted Aggregate Debt Service for each such fiscal year. For purposes of estimating future Net Revenues, the City may base its estimate upon such factors as it shall consider reasonable.

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

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

**Flow of Funds Under the Resolution**

The City has covenanted to deposit all Revenues of the System to the credit of the Revenue Fund. Each month, the City is to pay from the Revenue Fund amounts necessary to meet Operation and Maintenance Expenses for such month. After such payment, the City is to pay from the Revenue Fund, in

the following order of priority: amounts, if any, budgeted or otherwise necessary for the Rate Stabilization Fund, amounts required for the Debt Service Account in the Debt Service Fund and amounts, if any, required for credit to any separate subaccount established in the Debt Service Reserve Account in the Debt Service Fund for a particular Series of Bonds, amounts, if any, required for the Subordinated Indebtedness Fund, and amounts to be deposited in the Utilities Plant Improvement Fund. The balance of any moneys remaining in the Revenue Fund after the required payments have been made can be used by the City for any other lawful purpose, provided that all current payments have been made and the City has otherwise fully complied with the Resolution. All amounts held in any Funds under the Resolution are subject to being invested in Investment Securities; such investments will be valued at the amortized cost thereof. The 2012 Series B Bonds are not secured by the Debt Service Reserve Account or any subaccount therein.

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 "APPENDIX D - Copies of the Resolution and the Twenty-Fifth Supplemental Bond Resolution "attached hereto.

## THE 2012 SERIES B BONDS

### General

The 2012 Series B Bonds were issued on August 2, 2012 in the aggregate principal amount of $100,470,000, all of which currently remains Outstanding. The 2012 Series B Bonds mature on October 1, 2042. The 2012 Series B Bonds are currently subject to the Weekly Mode and bear interest at the Weekly Rate 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 Weekly Mode, interest is payable on the first Business Day (as defined in APPENDIX D hereto) of each calendar month.

As described under the caption "Change in Interest Modes" below, at the option of the City, and upon the satisfaction of certain conditions, the 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 Weekly Mode, such Bonds will bear interest at Weekly Rates, (b) while the 2012 Series B Bonds are in the Daily Mode, such Bonds will bear interest at Daily 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 Reoffering Memorandum. 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 are issuable only in fully registered form in the Authorized Denominations. "Authorized Denominations" means (i) for 2012 Series B Bonds bearing interest at a Weekly Rate, a Daily 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. The 2012 Series B Bonds were issued in book-entry only form and are registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). See "INTRODUCTORY STATEMENT - Book-Entry Only System" herein.

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" herein, beneficial ownership interests therein) are subject to optional tender for purchase and, under certain circumstances, mandatory tender for purchase. The Purchase Price (as defined in APPENDIX D hereto) for 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.

After June 29, 2017, liquidity support in connection with tenders for purchase of the 2012 Series B Bonds will be provided by the Bank pursuant to the Citibank Liquidity Facility. See "INTRODUCTORY STATEMENT — General", "CITIBANK 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 is payable at the principal office of the Paying Agent. Except as described below, interest on the 2012 Series B Bonds is payable on each Interest Payment Date (as defined in APPENDIX D hereto) to the Holders thereof at the Record Date (as defined in APPENDIX D hereto) therefor, by check or draft of the Paying Agent mailed to each registered Holder at such person's address as it appears on the books of registry kept at the principal office of the Bond Registrar pursuant to the Resolution or, at the option of any Holder of at least $1,000,000 in principal amount of 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 "INTRODUCTORY STATEMENT - Book-Entry Only System " herein, 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 is the current Remarketing Agent for the 2012 Series B Bonds. 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 60 days' notice or be removed at any time by the City upon 30 days' notice.

U.S. Bank 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 "Copies of the Resolution and the Twenty-Fifth Supplemental Bond Resolution" in APPENDIX D hereto.

**Interest on the 2012 Series B Bonds**

Interest on the 2012 Series B Bonds is 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 D hereto) only in the amount that would have accrued at the applicable 2012 Series B Bond Rate (as defined in APPENDIX D hereto) or Rates in effect during the applicable Interest Accrual Period (as defined in APPENDIX D hereto), regardless of whether any of such 2012 Series B Bonds was a 2012 Series B Bank Bond (as defined in APPENDIX D hereto) during any portion of such Interest Accrual Period.

The Interest Payment Dates with respect to each 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 Weekly Mode or the Daily 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 is 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 Weekly Mode, Daily 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 12% per annum, or such higher rate as shall be approved by the City if (a) an opinion of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions shall have been delivered to the Notice Parties (as defined in APPENDIX D hereto) to the effect that any such change in the Maximum Rate (i) is authorized or permitted by the Resolution and the Act (as defined in the Resolution) and (ii) will not cause the interest on the 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 Weekly Mode or the Daily 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 Weekly, Daily 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 currently are in the Weekly Mode and will bear interest at Weekly Rates until such time (if any) as the 2012 Series B Bonds are changed to the Auction Mode, the Daily Mode, the Flexible Mode, the Term Mode or the Fixed Mode. The interest rate to be in effect with respect to a particular 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 D 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:

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).

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.

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 D 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 Weekly Mode, the Daily 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 Weekly or Daily 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 D 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 Weekly Mode or the Daily 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 thirty 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 Weekly Mode or the Daily 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 "INTRODUCTORY STATEMENT – Book-Entry Only System" herein, at the option of the Beneficial Owner (as defined in "Book-Entry Only System" herein) thereof), from and to the extent of the funds described under the caption "Remarketing and Purchase Price" below, at the Purchase Price therefor, on the following dates (each such date being referred to herein as a "Purchase Date"):

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.

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.

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" herein, 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 D hereto) while the 2012 Series B Bonds are in the Weekly Mode or the Daily 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 D 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 (see "Redemption Provisions — Optional Redemption" below) provided, however, that such Officer's Certificate shall be accompanied by the written consent of the Bank to the 2012 Series B Bonds being so subject to mandatory tender on such date,

Amendment to the Twenty-Fifth Supplemental Resolution or the Resolution: on (a) any Business Day while the 2012 Series B Bonds are in the Weekly Mode or Daily 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 (i) the written consent of the Bank to the 2012 Series B Bonds being so subject to mandatory tender on such date and (ii) 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 Weekly Mode or the Daily 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" herein, 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 Citibank Liquidity Facility is subject to certain conditions, and such obligation may be terminated

without prior notice or payment thereunder under certain circumstances. See "CITIBANK 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 tender for purchase 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 D 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 " herein, 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 “Book-Entry Only System” herein) 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 will 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 D 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 paragraph 1(b) under "CITIBANK LIQUIDITY FACILITY — Liquidity Events of Default; Remedies" 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 Reoffering Memorandum. 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 Reoffering Memorandum. 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 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, pursuant to the Liquidity Facility the Bank is not obligated to purchase tendered 2012 Series B Bonds. In addition, the Bank may fail to purchase tendered 2012 Series B Bonds even when it is obligated to do so. In both cases, tendered 2012 Series B Bonds would be returned to the holders thereof and bear interest at an interest rate established by the Remarketing Agent that will not exceed the Maximum Rate (or, in the event that the Remarketing Agent fails to determine the interest rate, such 2012 Series B Bond will bear interest at a rate equal to 100% of the SIFMA Index (as defined in APPENDIX D hereto) most recently announced on or prior to each Rate Determination Date). It is not certain that following a failure to purchase 2012 Series B Bonds a secondary market for the 2012 Series B Bonds will develop.

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 are 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 Weekly or Daily 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 are 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;

(c) together, in each case, with accrued interest, if any, to the redemption date. Sinking Fund Redemption

The 2012 Series B Bonds are 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 |
|---|---|---|---|
| 2021 | $1,620,000 | 2033 | $5,015,000 |
| 2022 | 140,000 | 2034 | 5,235,000 |
| 2023 | 100,000 | 2035 | 5,560,000 |
| 2025 | 500,000 | 2036 | 5,740,000 |
| 2027 | 3,370,000 | 2037 | 5,930,000 |
| 2028 | 3,200,000 | 2038 | 6,125,000 |
| 2029 | 3,080,000 | 2039 | 6,325,000 |
| 2030 | 2,910,000 | 2040 | 6,430,000 |
| 2031 | 3,095,000 | 2041 | 16,185,000 |
| 2032 | 3,175,000 | 2042* | 16,735,000 |

*Final maturity.

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 Facility**

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 Weekly Mode or the Daily 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 D hereto); *provided, however*, that the City furnishes to the Tender Agent (i) an opinion of counsel of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that the substitution of such Substitute Liquidity Facility for the Liquidity Facility then in effect is authorized or permitted by the Resolution and will not cause the interest on the 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 Weekly Mode or the Daily 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" herein, 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 2012 Series B 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 "INTRODUCTORY STATEMENT - Book-Entry Only System " herein, 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" herein.

## CITIBANK LIQUIDITY FACILITY

**General**

As described above, after June 29, 2017, liquidity support for the 2012 Series B Bonds will be provided by the Bank pursuant to the Citibank Liquidity Facility.

The following description is a summary of certain provisions of the Citibank Liquidity Facility. Such summary does not purport to be a complete description or restatement of the material provisions of the Citibank Liquidity Facility. Investors should obtain and review a copy of the Citibank Liquidity Facility in order to understand all of the terms of that document. Copies of the Citibank Liquidity Facility may be obtained from the City, the Tender Agent or the Remarketing Agent upon request. Capitalized words or terms used in the following summary that are not defined shall have the meanings ascribed to them elsewhere in this Reoffering Memorandum, the Resolution, the Twenty-Fifth Supplemental Resolution or the Citibank Liquidity Facility or in "Copies of the Resolution and the Twenty-Fifth Supplemental Bond Resolution" in APPENDIX D hereto.

The Citibank Liquidity Facility provides that the Bank shall purchase the 2012 Series B Bonds tendered or deemed tendered from time to time pursuant to certain optional tenders or mandatory

tenders by owners thereof in accordance with the terms of the Twenty-Fifth Supplemental Resolution to the extent the Remarketing Agent is unable to remarket such 2012 Series B Bonds. The Citibank Liquidity Facility will terminate on _____, 2020, unless extended or earlier terminated pursuant to its terms.

Under certain circumstances described below, the obligation of the Bank to purchase the 2012 Series B Bonds tendered or deemed tendered by the owners thereof pursuant to certain optional or mandatory tenders for purchase may be suspended or terminated without notice. In such event, sufficient funds may not be available to purchase the 2012 Series B Bonds tendered or deemed tendered by the owners thereof pursuant to an optional or mandatory tender for purchase.

**Purchase of Eligible Bonds by the Bank**

The Bank agrees, on the terms and subject to the conditions contained in the Citibank Liquidity Facility, to purchase, on each Purchase Date (as defined in the Twenty-Fifth Supplemental Resolution) during the Purchase Period (as defined in the Citibank Liquidity Facility), at the Purchase Price (as defined in the Citibank Liquidity Facility), all Eligible Bonds (as defined in the Citibank Liquidity Facility).

The aggregate amount of the Purchase Price comprising interest on Eligible Bonds purchased on any Purchase Date (the "Interest Component") shall not exceed the lesser of (i) the Available Interest Commitment (as defined in the Citibank Liquidity Facility) on such date and (ii) if the Purchase Date is not an Interest Payment Date, the aggregate amount of interest accrued on such 2012 Series B Bonds from and including the next preceding Interest Payment Date to but excluding such Purchase Date and, if the Purchase Date is an Interest Payment Date, zero. The aggregate principal amount (or portion thereof) of any Eligible Bond purchased on any Purchase Date shall be in an Authorized Denomination and, in any case, the Bank shall not be obligated to purchase on any Purchase Date to the extent the aggregate Purchase Price of the Eligible Bonds exceeds the Available Commitment (as defined in the Citibank Liquidity Facility) as of 10 A.M. (New York City time) on such Purchase Date.

**Liquidity Events of Default; Remedies**

Except as otherwise specified below, the occurrence of any of the following events set forth in paragraphs numbered 1, 2 and 3 below shall constitute an event of default under the Citibank Liquidity Facility (each, a "Liquidity Event of Default"):

1. Liquidity Events of Default Not Permitting Immediate Termination or Suspension.

(a) Notice Termination Events. Each of the following Liquidity Events of Default shall constitute a "Notice Termination Event":

(i) Payments. The City shall not pay when due any amount owed to the Bank pursuant to the Fee Letter (as defined in the Citibank Liquidity Facility) or Sections 2.7, 2.8 or 8.3 of the Citibank Liquidity Facility; or

(ii) Other Payments. The City shall fail to pay within ten (10) days after the same shall become due any fee or other amount payable by it under the Citibank Liquidity Facility or the Fee Letter (not otherwise referred to in this paragraph 1(a)); or

(iii) Representations. Any representation, warranty, certification or statement made by the City (or incorporated by reference) in the Citibank Liquidity Facility, the Fee Letter or any Financing Document (as defined in the Citibank Liquidity Facility) or in any certificate, financial statement or other document delivered pursuant to the Citibank Liquidity Facility or any Financing Document shall prove to have been incorrect in any material respect when made (or deemed made); or

(iv) Certain Covenants. The City shall default in the due performance or observance of Sections 5.5, 5.6, 5.7, 5.11, 5.13, 5.14 or 5.15 of the Citibank Liquidity Facility and such default shall remain unremedied for a period of ten (10) days after the Bank shall have given written notice thereof to the City; or

(v) Other Covenants. The City shall default in the due performance or observance of any other term, covenant or agreement contained or incorporated by reference in the Citibank Liquidity Facility (other than those referred to in paragraphs 1(a)(i) through 1(a)(iv) above) and such default shall remain unremedied for a period of 45 days after the Bank shall have given written notice thereof to the City; or

(vi) Long-Term Credit Rating. The long-term credit rating assigned by a Rating Agency (as defined in the Citibank Liquidity Facility) to the 2012 Series B Bonds, Bank Bonds (as defined in the Citibank Liquidity Facility) or any Parity Debt (as defined in the Citibank Liquidity Facility) (without taking into account third party credit enhancement) is withdrawn or suspended, in either case, for credit related reasons by any one of the Rating Agencies or reduced below "A2" (or its equivalent) by Moody's, below "A" (or its equivalent) by S&P or below "A" (or its equivalent) by Fitch; or

(vii) Other Obligations. (A) An "event of default" as defined in Section 801 of the Resolution shall occur and is not cured within the applicable grace period, (B) any "event of default" on the part of the City under any of the Financing Documents (excluding the Resolution and the Twenty-Fifth Supplemental Resolution) shall occur and is not cured within any applicable cure period, (C) the City shall fail to pay any Indebtedness (as defined in the Citibank Liquidity Facility) of the City for borrowed money related to the System, or any interest or premium thereon, when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), of at least $20,000,000 in principal amount then outstanding and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Indebtedness, or (D) the City shall fail to perform or observe any term, covenant or condition on its part to be performed or observed under any Contractual Obligation (as defined in the Citibank Liquidity Facility) related to the System when required to be performed or observed, and such failure shall not be waived and shall continue after the applicable grace period, if any, specified in such Contractual Obligation, if the effect of such failure to perform or observe is to accelerate, or permit the acceleration of, with the giving of notice if required, the maturity of the related Indebtedness; or any such Indebtedness shall be declared to be due and payable or be required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof.

(b) Remedies. Upon the occurrence of any Liquidity Event of Default, including an Immediate Termination Event or Suspension Event (each as defined below), the Bank shall have all other remedies provided at law or in equity including, without limitation, specific performance; and, in

addition, the Bank, in its sole discretion, may do one or more of the following: (i) by notice to the City, tender any or all Bank Bonds for payment to the City and the City shall thereupon be obligated to pay immediately the outstanding principal amount of each Bank Bond (together with accrued interest thereon) so tendered, without presentment, demand, protest or other notice of any kind, all of which are expressly waived by the City in the Citibank Liquidity Facility; provided, however, that in the case of any of the Liquidity Events of Default specified in Section 801(v) or (vi) of the Resolution or in paragraph 2(a)(iii) or 3(a)(i) below, without any notice to the City or any other act by the Bank, all Bank Bonds shall immediately be deemed to be tendered for payment to the City and the City shall be obligated to pay immediately the outstanding principal amount of such Bank Bonds (together with accrued interest thereon) without presentment, demand, protest or notice of any kind, all of which are expressly waived by the City in the Citibank Liquidity Facility; (ii) deliver to the City, the Tender Agent and the Remarketing Agent written notice substantially in the form of Exhibit B to the Citibank Liquidity Facility (a "Notice of Termination") that a Liquidity Event of Default has been declared under the Citibank Liquidity Facility and is continuing that entitles the Bank to terminate the Available Commitment thereunder following the honoring by the Bank, on or prior to the date of such termination, of a final drawing under the Citibank Liquidity Facility to purchase all of the 2012 Series B Bonds upon the resultant mandatory tender for purchase thereof, whereupon (A) the 2012 Series B Bonds shall be called for mandatory tender for purchase pursuant to Section 3.06(c)(vii) of the Twenty-Fifth Supplemental Resolution on the fifteenth day (or, if such day is not a Business Day, on the next preceding Business Day) following the date such Notice of Termination is received by the Tender Agent and (B) at the close of business on the sixteenth (16th) day (or, if such day is not a Business Day, on the next succeeding Business Day) following the date such Notice of Termination is received by the Tender Agent, the Available Commitment shall be reduced to zero and the obligations of the Bank under the Citibank Liquidity Facility shall terminate; provided, however, that prior to such termination, the Bank shall remain obligated to purchase Eligible Bonds in accordance with the terms of the Citibank Liquidity Facility so long as no Immediate Termination Event or Suspension Event has occurred; (iii) exercise any right or remedy available to it under any other provision of the Citibank Liquidity Facility or the Fee Letter; and (iv) exercise any other rights or remedies available under any Financing Document; provided, however, that the Bank shall not have the right to terminate or suspend its obligation to purchase 2012 Series B Bonds except as described in paragraph 2 or paragraph 3 below. Notwithstanding any other provision of this paragraph 1, all obligations under the Citibank Liquidity Facility and under the Fee Letter shall bear interest at the Default Rate (as defined in the Citibank Liquidity Facility) upon the occurrence and during the continuation of any Liquidity Event of Default.

2. Liquidity Events of Default Permitting Immediate Termination.

(a) Immediate Termination Events. Each of the following Liquidity Events of Default shall also constitute an "Immediate Termination Event":

(i) Payment Default. The City shall have failed to pay when due any principal or interest, or both, payable under, or in respect of the 2012 Series B Bonds (including any Bank Bonds) (other than a failure to pay any amounts described in this clause (a)(i) as a result of the tender or deemed tender for payment of Bank Bonds pursuant to paragraph 1(b)(i) above); or

(ii) Judgments. A final, unappealable judgment or judgments against the City for the payment of money in excess of $20,000,000 in the aggregate shall be payable from the funds and other property comprising the Trust Estate securing the 2012 Series B Bonds (including any Bank Bonds) and not be covered by insurance, the operation or result of which judgment or

judgments shall remain unpaid, unstayed, undischarged, unbonded or undismissed for a period of sixty (60) days (an obligation shall be considered "covered by insurance" to the extent the City has self-insured against such obligation or risk and has maintained adequate reserves therefor under appropriate insurance industry standards); or

(iii) Insolvency. (A) The City shall (1) commence any case, proceeding or other action (x) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition, declaration of a payment moratorium or other relief with respect to it or its debts or (y) seeking the appointment of a receiver, trustee, custodian or similar official for it or for all or any substantial part of its assets, or (2) make a general assignment for the benefit of its creditors; (B) there shall be commenced against the City any case, proceeding or other action of a nature referred to in clause (A) above which (x) results in an order for such relief or in the appointment of a receiver or similar official or (y) remains undismissed, undischarged or unbonded for a period of sixty (60) days; (C) there shall be commenced against the City any case, proceeding or other action seeking the issuance of a warrant of attachment, execution, restraint or similar process against all or any substantial part of the assets of the System or the Net Revenues of the System, which results in the entry of a final and non-appealable order or ruling for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; (D) the City shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (A), (B) or (C) of this paragraph 2(a)(iii); or (E) the City shall (1) admit in writing its inability to pay its debts as such debts become due or (2) become insolvent within the meaning of the United States Bankruptcy Code; or

(iv) Validity. Any provision of the Act (as defined in the Citibank Liquidity Facility), the Citibank Liquidity Facility, the Resolution, the Twenty-Fifth Supplemental Resolution or the 2012 Series B Bonds relating to (A) the ability or the obligation of the City to pay, when due, the principal of or interest on the 2012 Series B Bonds (including any Bank Bonds) or any Parity Debt or (B) the Trust Estate securing the 2012 Series B Bonds (including any Bank Bonds) and Parity Debt shall at any time be declared to be null and void, invalid or unenforceable as the result of a final nonappealable judgment by any federal or state court or as a result of any legislative or administrative action by any Governmental Authority (as defined in the Citibank Liquidity Facility) having jurisdiction over the City; or

(v) Ratings. (A) Each Rating Agency then rating the 2012 Series B Bonds shall have (1) withdrawn or suspended its Rating (as defined in the Citibank Liquidity Facility) assigned to the 2012 Series B Bonds, in either case, for credit related reasons or (2) reduced its Rating assigned to the 2012 Series B Bonds below Investment Grade (as defined in the Citibank Liquidity Facility) or (B) each Rating Agency then rating Parity Debt shall have (1) withdrawn or suspended its Rating assigned to any Parity Debt, in either case, for credit related reasons or (2) reduced its Rating assigned to any Parity Debt below Investment Grade; or

(vi) Parity Debt Payment Default. The City shall fail to make any payment in respect of principal or interest on any Parity Debt when due (i.e., whether upon said Parity Debt's scheduled maturity, required prepayment, upon demand or otherwise) and such failure shall

continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Parity Debt, or pursuant to the provisions of any resolution, indenture or instrument pursuant to which Parity Debt has been issued, the maturity of such Parity Debt shall as a result of the occurrence of a default in payment under such resolution, indenture or instrument, be accelerated or required to be prepaid prior to the stated maturity thereof; or

(vii) Debt Moratorium or Restructuring. (A) The City shall impose a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction on the repayment when due and payable of the principal of or interest on the 2012 Series B Bonds, the Bank Bonds or any Parity Debt or (B) any Governmental Authority having appropriate jurisdiction over the City shall enact or adopt legislation which results in a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction on the repayment when due and payable of the principal of or interest on the 2012 Series B Bonds, the Bank Bonds or any Parity Debt.

(b) Remedies. In addition to the remedies set forth in paragraph 1(b) above, upon the occurrence of an Immediate Termination Event, the Available Commitment shall immediately be reduced to zero, in which case, the obligations of the Bank under Article II of the Citibank Liquidity Facility shall immediately terminate and expire without requirement of notice by the Bank; provided, that (i) the Liquidity Event of Default described in paragraph 2(a)(i) above will not qualify as an "Immediate Termination Event" under the Citibank Liquidity Facility if the failure to pay the principal of, or interest on, a Bank Bond is due solely to a tender or deemed tender for payment of all of the Bank Bonds by the Bank for any reason other than nonpayment as described in paragraph 2(a)(i) above, (ii) as and to the extent that the provider of a liquidity or credit facility in support of Parity Debt owns all or a portion of such Parity Debt pursuant to the provisions of such facility ("Bank-Owned Parity Debt"), the Liquidity Event of Default described in paragraph 2(a)(vi) above will not qualify as an "Immediate Termination Event" if the failure to pay the principal of, or interest on, said Bank-Owned Parity Debt described in paragraph 2(a)(vi) is due solely to a tender or deemed tender for payment of said Bank-Owned Parity Debt for any reason other than nonpayment as described in paragraph 2(a)(vi) above and (iii) the Suspension Events described in paragraph 3(a) below will not qualify as "Immediate Termination Events" unless and until the applicable conditions described in paragraph 3(b) below for such qualification have been satisfied. After such termination or expiration, the Bank shall deliver promptly to the City, the Tender Agent and the Remarketing Agent written notice of such termination or expiration; provided, however, that failure to provide such written notice shall have no effect on the validity or enforceability of such termination or expiration.

3. Liquidity Events of Default Permitting Immediate Suspension.

(a) Suspension Events. Each of the following Defaults (as defined in the Citibank Liquidity Facility) and Liquidity Events of Default shall also constitute a "Suspension Event":

(i) Involuntary Bankruptcy. The occurrence of a Default under paragraph 2(a)(iii)(B) or paragraph 2(a)(iii)(C) above; or

(ii) Invalidity. (A) Any Governmental Authority with jurisdiction to rule on the validity or enforceability of the Citibank Liquidity Facility, the 2012 Series B Bonds, the Act, the Resolution or the Twenty-Fifth Supplemental Resolution shall find or rule, in a judicial or administrative proceeding, that any provision of the Citibank Liquidity Facility, the 2012 Series B

Bonds, the Act, the Resolution, the Twenty-Fifth Supplemental Resolution or any Parity Debt, as the case may be, relating to (1) the ability or the obligation of the City to pay, when due, the principal of or interest on the 2012 Series B Bonds (including any Bank Bonds) or any Parity Debt or (2) the Trust Estate securing the 2012 Series B Bonds (including any Bank Bonds) and Parity Debt is not valid or not binding on, or enforceable against, the City; or (B) an authorized representative of the City (1) makes a claim in a judicial or administrative proceeding that the City has no further liability or obligation under the Citibank Liquidity Facility, the 2012 Series B Bonds, the Act, the Resolution, the Twenty-Fifth Supplemental Resolution or any Parity Debt to pay, when due, the principal of or interest on the 2012 Series B Bonds (including any Bank Bonds) or any Parity Debt or (2) contests in a judicial or administrative proceeding the validity or enforceability of any provision of the Citibank Liquidity Facility, the 2012 Series B Bonds, the Act, the Resolution, the Twenty-Fifth Supplemental Resolution or any Parity Debt relating to or otherwise affecting (y) the City's ability or obligation to pay, when due, the principal of or interest on the 2012 Series B Bonds (including any Bank Bonds) or any Parity Debt or (z) the Trust Estate securing the 2012 Series B Bonds (including any Bank Bonds) and Parity Debt.

(b) Remedies; Restoration of Rights.

(i) In addition to the remedies set forth in paragraph 1(b) above, but subject to paragraphs 3(b)(ii) and 3(b)(iii) below (as applicable), in the case of a Liquidity Event of Default described in paragraph 3(a)(i), paragraph 3(a)(ii)(A) or paragraph 3(a)(ii)(B) above, the obligation of the Bank to purchase Eligible Bonds under the Citibank Liquidity Facility shall be immediately suspended without notice or demand and, thereafter, the Bank shall be under no obligation to purchase Eligible Bonds until the Available Commitment is reinstated as described below. Promptly upon the occurrence of any such Suspension Event, the Bank shall notify the City, the Tender Agent and the Remarketing Agent of such suspension and the effective date of such suspension in writing by facsimile, promptly confirmed by regular mail; provided, that the Bank shall incur no liability of any kind by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Available Commitment or its obligation to purchase Eligible Bonds pursuant to the Citibank Liquidity Facility.

(ii) Upon the occurrence of a Default described in paragraph 3(a)(i) above, the Bank's obligations to purchase Eligible Bonds shall be suspended immediately and automatically and remain suspended until said case, proceeding or other action referred to therein is terminated prior to the court entering an order granting the relief sought in such case, proceeding or other action. In the event such case, proceeding or other action is terminated prior to the Bank's obligations under the Citibank Liquidity Facility having expired or been terminated in accordance with its terms, then the Available Commitment and the obligation of the Bank to purchase Eligible Bonds shall be reinstated and the terms of the Citibank Liquidity Facility shall continue in full force and effect as if there had been no such suspension. In the event that such case, proceeding or other action shall not have been terminated prior to the Bank's obligations under the Citibank Liquidity Facility having expired or been terminated in accordance with its terms, then the Available Commitment and the obligation of the Bank to purchase Eligible Bonds shall terminate without notice or demand and, thereafter, the Bank shall be under no obligation to purchase Eligible Bonds.

(iii) Upon the occurrence of a Liquidity Event of Default described in paragraph 3(a)(ii)(A) or paragraph 3(a)(ii)(B) above, the Bank's obligations to purchase Eligible Bonds shall

be immediately and automatically suspended and remain suspended unless and until a court with jurisdiction to rule on such a Liquidity Event of Default shall enter a final and nonappealable judgment that any of the material provisions of the Act or any other document described in paragraph 3(a)(ii)(A) above are not valid or not binding on, or enforceable against, the City or that a claim or contest described in paragraph 3(a)(ii)(B) above shall have been upheld in favor of the City in accordance with a final and nonappealable judgment, then, in each such case, the Available Commitment and the obligation of the Bank to purchase Eligible Bonds shall immediately terminate without notice or demand and, thereafter, the Bank shall be under no obligation to purchase Eligible Bonds. If a court with jurisdiction to rule on such a Liquidity Event of Default shall find or rule by entry of a final and nonappealable judgment that the material provision of the Act or any other document described in paragraph 3(a)(ii)(A) above is valid and binding on, or enforceable against, the City or the claim or contest described in paragraph 3(a)(ii)(B) above shall have been dismissed pursuant to a final and nonappealable judgment, then the Available Commitment and the obligations of the Bank under the Citibank Liquidity Facility shall, in each such case, thereupon be reinstated (unless the Bank's obligations under the Citibank Liquidity Facility shall have previously expired or been terminated in accordance with its terms). Notwithstanding the foregoing, if the suspension of the obligations of the Bank pursuant to any Liquidity Event of Default described in paragraph 3(a)(ii)(A) or paragraph 3(a)(ii)(B) above remains in effect and litigation is still pending and a determination regarding the same shall not have been dismissed or otherwise made pursuant to a final and non-appealable judgment, as the case may be, on or prior to the first anniversary of the occurrence of such Liquidity Event of Default, then the Available Commitment and the obligation of the Bank to purchase Eligible Bonds shall at such time terminate without notice or demand and, thereafter, the Bank shall be under no obligation to purchase Eligible Bonds.

In the case of the occurrence of any Suspension Event described in this paragraph 3, the Tender Agent shall immediately notify all Bondholders (as defined in the Citibank Liquidity Facility) of the suspension and/or termination of both the Available Commitment and the obligation of the Bank to purchase Eligible Bonds.

## THE BANK

The information under this caption relates to and has been provided by the Bank for inclusion in this Reoffering Memorandum. No representation is made by the City as to the accuracy, completeness or adequacy of such information. The delivery of this Reoffering Memorandum 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.

The Bank was originally organized on June 16, 1812, and now is a national banking association organized under the National Bank Act of 1864. The Bank is an indirect wholly owned subsidiary of Citigroup Inc. ("Citigroup"), a Delaware holding company.

The long-term ratings of the Bank and its consolidated subsidiaries are as follows:

| Rating Agency | Long Term | Short Term | Outlook |
|---|---|---|---|
| Moody's | A1 | P-1 | Stable |
| S&P | A+ | A-1 | Stable |
| Fitch | A+ | F1 | Stable |

The Bank is a commercial bank that, along with its subsidiaries and affiliates, offers a wide range of banking and trust services to its customers throughout the United States and the world. As a national bank, the Bank is a regulated entity permitted to engage only in banking and activities incidental to banking. The Bank is primarily regulated by the Office of the Comptroller of the Currency (the "Comptroller"), which also examines its loan portfolios and reviews the sufficiency of its allowance for credit losses.

The Bank's deposits at its U.S. branches are insured by the Federal Deposit Insurance Corporation (the "FDIC") and are subject to FDIC insurance assessments. The Letter of Credit is not insured by the FDIC or any other regulatory agency of the United States or any other jurisdiction. The Bank may, under certain circumstances, be obligated for the liabilities of its affiliates that are FDIC-insured depository institutions.

Under U.S. law, deposits in U.S. offices and certain claims for administrative expenses and employee compensation against a U.S. insured depository institution which has failed will be afforded a priority over other general unsecured claims, including deposits in non-U.S. offices and claims under non-depository contracts in all offices, against such an institution in the "liquidation or other resolution" of such an institution by any receiver. Such priority creditors (including the FDIC, as the subrogee of insured depositors) of such FDIC-insured depository institution will be entitled to priority over unsecured creditors in the event of a "liquidation or other resolution" of such institution.

For further information regarding the Bank, reference is made to the Annual Report on Form 10-K of Citigroup and its subsidiaries for the year ended December 31, 2016, filed by Citigroup with the Securities and Exchange Commission (the "SEC"). Copies of Citigroup's 10-K may be obtained, upon payment of a duplicating fee, by writing to the SEC at 100 F Street, N.E., Washington, D.C. 20549. In addition, Citigroup's 10-K is available at the SEC's web site (http://www.sec.gov).

In addition, the Bank submits quarterly to the Comptroller certain reports called "Consolidated Reports of Condition and Income for a Bank With Domestic and Foreign Offices" ("Call Reports"). The Call Reports are on file with, and publicly available at, the Comptroller's offices at 250 E Street, SW, Washington, D.C. 20219 and are also available on the web site of the FDIC (http://www.fdic.gov). Each Call Report consists of a Balance Sheet, Income Statement, Changes in Equity Capital and other supporting schedules at the end of and for the period to which the report relates.

Any of the reports referenced above are available upon request without charge from Citi Document Services by calling toll-free at (877) 936-2737 (outside the United States at (716) 730-8055), by e-mailing a request to docserve@citi.com or by writing to: Citi Document Services, 540 Crosspoint Parkway, Getzville, New York 14068.

The information contained under "THE BANK" in this Reoffering Memorandum relates to and has been obtained from the Bank. The information concerning the Bank contained herein is furnished solely to provide limited introductory information regarding the Bank and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced above.

## THE CITY

### General

The City, home of the University of Florida, is located in North Central Florida midway between Florida's Gulf and the Atlantic coast. The City is approximately 125 miles north of Tampa, approximately 110 miles northwest of Orlando and approximately 75 miles southwest of Jacksonville. The Bureau of Economic and Business Research at the University of Florida estimated a 2016 population of 257,062 in the Alachua County (the "County") with an estimated 128,612 persons resided within the City limits as of April 2016. The economic base of Gainesville consists primarily of light industrial, commercial, health care and educational activities. The University of Florida is the State's oldest university and, with approximately 50,000 students, is one of the largest universities in the nation.

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

The following are the current members of the City Commission:

| | Term Expires |
|---|---|
| Mayor Lauren Poe | May 2019 |
| Commissioner David Arreola, District 3 | May 2020 |
| Commissioner Harvey M. Budd, At-Large | May 2018 |
| Commissioner Charles E. Goston, District 1 | May 2018 |
| Commissioner Adrian Hayes-Santos, District 4 | May 2019 |
| Commissioner Harvey Ward, District 2 | May 2020 |
| Commissioner Helen K. Warren, At-Large | May 2020 |

## TAX MATTERS

On August 2, 2012, Orrick, Herrington & Sutcliffe LLP, New York, New York as Bond Counsel to the City (the "Initial Bond Counsel"), rendered an opinion (the "Approving Opinion") to the effect that, based upon an analysis of then existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 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"). The Initial Bond Counsel was 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 the Initial Bond Counsel observed that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. The Initial Bond Counsel also was of the opinion that the 2012 Series B Bonds and the interest thereon are exempt from taxation under then existing laws of the State of Florida, except as to estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations, banks and savings associations. A complete copy of the Approving Opinion is set forth in APPENDIX F-1 hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 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 "APPENDIX D - Copies of the Resolution and the Twenty-Fifth Supplemental Bond Resolution" attached 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 dates of original issuance of the 2012 Series B Bonds. The Approving Opinion assumed the accuracy of these representations and compliance with these covenants. The Initial Bond Counsel did not undertake to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to the Initial Bond Counsel's attention after the dates 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 Approving Opinion was not intended to, and may not, be relied upon in connection with any such actions, events or matters. The Approving Opinion delivered in connection with the original issuance of the 2012 Series B Bonds has not been updated subsequent to the date of original issuance of the 2012 Series B Bonds, and Bond Counsel (as defined below) is not rendering any opinion on the original or current tax status of the 2012 Series B Bonds. Orrick, Herrington & Sutcliffe LLP has not been engaged to and has not provided any services in connection with the substitution of the Citibank Liquidity Facility. Orrick, Herrington & Sutcliffe LLP has not updated the Approving Opinion or expressed any opinion with respect to the current or continuing exclusion of interest on the 2012 Series B Bonds from gross income for federal income tax purposes or with respect to the substitution of the Citibank Liquidity Facility.

Although, as addressed in the Approving Opinion, the Initial Bond Counsel was 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. In its Approving Opinion, the Initial Bond Counsel expressed no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2012 Series B Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the 2012 Series B Bonds. Prospective purchasers of the 2012 B Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which neither the Initial Bond Counsel, nor Bond Counsel is expected to express no opinion.

The Approving Opinion was based on then current legal authority, covered certain matters not directly addressed by such authorities, and represented the Initial Bond Counsel's judgment as to the proper treatment of the 2012 Series B Bonds for federal income tax purposes. They are not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and the Initial Bond Counsel has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Unless separately engaged, neither the Initial Bond Counsel, nor Bond Counsel is obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the 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 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 B Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

Holland & Knight LLP, Bond Counsel to the City ("Bond Counsel") has delivered an opinion to the effect that the replacement of the existing liquidity facilities with the Citibank Liquidity Facility will not, in and of itself, adversely affect the exclusion of interest on the 2012 Series B Bonds from gross income for purposes of federal income taxation (the "2017 No Adverse Effect Opinion"). Reference is made to the form of 2017 No Adverse Effect Opinion attached hereto as "APPENDIX F-2" for the complete text thereof. Except to the limited extent expressly stated in the 2017 No Adverse Effect Opinion, subsequent to the original issuance of the 2012 Series B Bonds neither the Initial Bond Counsel, nor Bond Counsel has made any investigation or review with respect to and expresses no opinion as to the current or continuing exclusion from gross income for federal income tax purposes of interest on the 2012 Series B Bonds. In rendering said 2017 No Adverse Effect Opinion, Bond Counsel was not requested, nor did it undertake, to make an independent investigation regarding the Approving Opinion or the facts or laws related to such opinion, the expenditure of 2012 Series B Bonds proceeds, to confirm that City has complied with the certifications and representations in the various certificates or documents to which it was a party, or to review any other events which may have occurred since the 2012 Series B Bonds were issued which might affect the tax status of interest on the 2012 Series B Bonds or which might change the opinions expressed at the time the 2012 Series B Bonds were issued. The opinions of the Initial Bond Counsel and Bond Counsel represent their legal judgment based upon their review of the law and the facts that they deems relevant to render such opinion and is not a guarantee of a result. No opinion has been expressed by the Initial Bond Counsel or Bond Counsel as to whether a subsequent change in the Mode will adversely affect the exclusion from gross income for federal income tax purposes of interest on the 2012 Series B Bonds.

## CONTINUING DISCLOSURE

**[Pursuant to a Continuing Disclosure Certificate entered into by the City simultaneously with the original delivery of the 2012 Series B Bonds (the "Continuing Disclosure Certificate"), the City has covenanted 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), (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 Electronic Municipal Market Access ("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 copy of the Continuing Disclosure Certificate attached hereto**

**as APPENDIX G. These covenants were made in order to assist the underwriter upon the original issuance of the 2012 Series B Bonds in complying with SEC Rule 15c2-12(b)(5) (the "Rule").**

**In accordance with 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 are 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" is 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 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 "INTRODUCTORY STATEMENT - Book-Entry System" hereto, upon initial issuance, the 2012 Series B Bonds were 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, was registered in the name of Cede & Co., as nominee for DTC.**

**With respect to the 2012 Series B Bonds, no party other than the City is obligated to provide, nor is expected to provide, any continuing disclosure information with respect to the Rule. In the past five years, the City has never failed in any material respect to comply with any prior agreements to provide continuing disclosure information pursuant to the Rule. However, the City entered into a continuing disclosure agreement in connection with its issuance of its Guaranteed Entitlement Revenue Refunding Bonds, Series 2004 (the "Series 2004 Bonds"). The Series 2004 Bonds were issued to finance general projects within the City of Gainesville and are unrelated to the Bonds issued under the Resolution. The City as part of its diligence identified in November 2014 that it had inadvertently failed to include a table as part of its annual filing. Upon realizing such failure, the City filed the missing information with the MSRB on November 20, 2014 and intends to include such table in its future filings so long as the Series 2004 Bonds remain outstanding. While the City does not believe that such failure to include the subject table in its annual filing to be a material failure to comply with any prior agreements to provide continuing disclosure information pursuant to the Rule, in order to demonstrate its continued commitment to continuing disclosure best practices, the City has included notice of this non-material instance of non-compliance in the interest of being fully transparent.]**

## RATINGS

The City has requested short term ratings from S&P, Moody's and Fitch. The short term ratings on the 2012 Series B Bonds will be assigned solely as a result of the issuance of the Citibank Liquidity Facility and will be released by such rating agencies on or about the Conversion Date. The 2012 Series B Bonds have received underlying ratings of **["AA", "Aa2" and "AA-"]** from S&P, Moody's and Fitch, respectively, without regard to the Citibank Liquidity Facility.

An explanation of the significance of any rating or outlook may be obtained only from the rating agency furnishing the same, at the following addresses: S&P Global Inc., 55 Water Street, New York, New York 10041; Moody's Investors Service, Inc., 7 World Trade Center at 250 Greenwich Street, New York, New York 10007; and Fitch Ratings, Inc., One State Street Plaza, New York, New York 10004. Such rating

agencies may have obtained and considered information and material which have not been included in this Reoffering Memorandum. The ratings reflect only the respective views of such rating agencies, and the City makes no representation as to the appropriateness of the ratings. Generally, rating agencies base their ratings on the information and materials furnished to them and on investigations, studies and assumptions by the rating agencies. An explanation concerning the significance of the ratings given may be obtained from the respective rating agency.

There is no assurance that such ratings will be in effect for any given period of time or that such ratings will not be revised upward or downward or withdrawn entirely by such rating agencies if, in the judgment of such agencies, circumstances so warrant. Neither the Remarketing Agent nor the City has undertaken any responsibility to assure the maintenance of the rating or to oppose any such revision or withdrawal. Any such downward revision or withdrawal of ratings on the 2012 Series B Bonds may result in the suspension or termination of the Citibank Liquidity Facility. See "CITIBANK LIQUIDITY FACILITY" herein.

## LITIGATION

Except as described below, there is no litigation or other proceeding pending or, to the knowledge of the City, threatened in any court, agency or other administrative body (either state or federal) in any way questioning or affecting (i) the proceedings under which the 2012 Series B Bonds were originally issued, (ii) the validity of any provision of the 2012 Series B Bonds or the Resolution, (iii) the pledge by the City under the Resolution, (iv) the legal existence of the City or (v) the authority of the City to own and operate the System and to set utility rates.

Following is a description of certain current adversarial proceedings regarding the City and the System. Such described adversarial proceedings are not expected to adversely affect the City's ability to pay debt service on the Senior Lien Bonds or the Subordinated Indebtedness, including the 2012 Series B Bonds, or to otherwise comply with any of its obligations under the Resolution, including the rate covenants.

American Arbitration Association Case No. 01-16-0000-8157. On March 10, 2016, Gainesville Renewable Energy Center, LLC ("GREC"), filed arbitration against the City, doing business as the Gainesville Regional Utilities ("GRU"), initially challenging GRU's withholding payment of invoiced amounts pursuant to the long-term power purchase agreement between GRU and GREC ("PPA"). As of January 31, 2017, $ 7,428,899.98 (including accrued interest) has been withheld by GRU based on disputed amounts actually invoiced by GREC, these disputes are GREC's Counts 1, 6, 7 and 8 summarized below.

In addition, GREC has alleged claims in contract and tort that it asserts could result in aggregate damages to GREC of over $100,000,000. These claims are GREC's Counts 2, 3 and 4 summarized below. Likewise, GRU has alleged claims in contract that could result in aggregate damages to GRU of over $100,000,000. These claims are GRU Counts 4 and 5 summarized below. At this stage in the proceedings, neither party has substantiated the dollar value of these additional claims to the tribunal. At this stage in the proceedings, it is not possible for GRU to predict the outcome of these claims. However, GRU is vigorously defending against the GREC Counts in arbitration and believes that (i) some or all of any damages resulting from the GREC Counts constituting tort claims would be subject to sovereign immunity claims processes and statutory caps, (ii) some or all of any damages resulting from the tort claims may be covered by liability insurance of the City, and (iii) regardless of whether GREC is successful on any of the GREC Counts, GRU Management believes that any potential liability of GRU will

not adversely affect GRU's ability to pay (from GRU revenues or resources) the debt service on the 2012 Series B Bonds, or to otherwise comply with any of its obligations under the Resolution or the Twenty-Fifth Supplemental Resolution, including the rate covenants.

The arbitration hearing is currently stayed pursuant to the terms of a Memorandum of Understanding between the parties dated April 24, 2017. The Memorandum of Understanding sets forth the parties intent to negotiate a purchase by GRU of the GREC biomass facility. In the event the parties are unable to negotiate or close on the purchase, the stay will be lifted and the arbitration will proceed. Pursuant to the PPA, the decision of the arbitrator will be final and binding on the parties.

GREC's Count 1: GREC alleges that GRU has breached the PPA by: (1) trying to force GREC to take a Planned Maintenance (as defined in the PPA) outage in April 2016; (2) refusing to recognize a letter GREC sent on October 14, 2015, as the contractually required "written annual maintenance plan" in which GREC cancelled the maintenance outage in April of 2016; (3) refusing to recognize GREC's alleged contractual right to determine whether and when to take a maintenance outage; (4) asserting that it would consider GREC in an outage during the agreed period and would not make Available Energy (as defined in the PPA) payments regardless of whether GREC actually took an outage; and (5) not making Available Energy payments to GREC for the 21-day period between April 9, 2016 and April 29, 2016.

Related GRU Counts 1, 2, 3 and 6: GRU seeks declarations that (1) performance of annual Planned Maintenance is a material obligation under the PPA, (2) GREC's refusal to perform annual Planned Maintenance in 2016 constitutes a material default under the PPA and (3) GRU may terminate the PPA. GRU alleges that because GREC failed to perform annual Planned Maintenance in April 2016, GRU is not receiving the benefit of its bargain under the PPA. GRU has requested a decree of specific performance requiring GREC to conduct Planned Maintenance annually for the remainder of the term of the PPA.

GREC's Count 2: GREC claims that GRU has breached the PPA by interfering with GREC's financing and refinancing efforts on account of: (1) GRU's involvement in the resolved Construction Cost Adjuster dispute; (2) GRU's withholding of Available Energy payments for the 21-day Planned Maintenance period in April 2016; (3) GRU's Notice Letter to GREC's Collateral Agent; and (4) GRU's refusal to retract said Notice Letter.

GREC's Count 3: GREC claims that GRU has breached the implied covenant of good faith and fair dealing by: (1) making statements such as "break" the GREC facility (the "Facility") and "make things as painful for GREC as possible"; and (2) on account of the facts regarding the alleged breaches identified in GREC's Counts 1 and 2 described above.

GREC's Count 4: GREC claims that GRU has committed the tort of intentional interference with business relations by: (1) sending the Notice Letter to GREC's Collateral Agent; (2) claiming that GREC is in default of a material obligation under the PPA; and (3) identifying its contractual right to terminate the PPA based on GREC's material default.

GREC's Count 5: GREC seeks declaratory judgment regarding its Counts 1-4.

GREC's Count 6: GREC claims that GRU breached the PPA by not paying Shutdown Charges (as defined in the PPA) in connection with alleged Purchaser Shutdown (as defined in the PPA) events in September 2015, March 2016, and May 2016.

GREC's Count 7: GREC claims that GRU is in breach of the PPA for failing to pay GREC for claimed Available Energy (as defined in the PPA) during a number of "ramp-up" and "ramp-down" periods including (i) the ramp-up periods occurring in connection with each of the Dependable Capacity tests in September 2015, March 2016, and May 2016, (ii) a ramp-up period associated with the November 2015 dispatch, and (iii) the ramp-down and ramp-up periods of GREC's August 2015 Maintenance Outage.

GREC's Count 8: GREC claims that GRU is in breach of the PPA for invoking the "10% Payment Decreases" provision of the PPA to hold GREC accountable for failing to meet the operational level set by GRU for the month of March 2016 by at least 5%

GREC's Count 9: GREC seeks declaratory judgment regarding its Counts 6-8.

GRU's Count 4: GRU pays $200,000 every day for the Facility to be in a standby status available to deliver energy. GRU alleges that GREC has been conducting maintenance that renders the Facility unavailable without informing GRU of such maintenance and without reporting decreases in Available Energy to GRU.

GRU's Count 5: GRU alleges that GREC has breached its covenant of good faith and fair dealing by (i) refusing to perform annual Planned Maintenance, (ii) conducting scheduling activities that do not comply with the requirements of the PPA, and (iii) misrepresenting the Facility's Available Energy in its invoices to GRU. GREC's actions have thwarted GRU's reasonable contractual expectations that: (i) GREC would maintain a fully reliable power generation facility in accordance with the PPA and good utility practice; (ii) GRU would not pay for Available Energy during the scheduled Planned Maintenance outage in April 2016; and (iii) GRU would make Available Energy payments that reflect the Facility's actual availability.

Except as described above, the City is also party to various federal, state and local claims, proceedings and lawsuits for damages claimed to result from the operation of the City and the System. Except as described above, the City Attorney does not believe that, individually or in the aggregate, the proceedings associated with these cases will materially adversely affect the Net Revenues of the System or materially adversely impair the business, operations, or financial condition of the System or the City's ability to pay debt service on the 2012 Series B Bonds.

## CONTINGENT FEES

The City has retained Bond Counsel, Disclosure Counsel and the Financial Advisor with respect to the substitution of the Citibank Liquidity Facility. Payment of the fees of such professionals is contingent upon consummation of such substitution.

## LEGAL MATTERS

Certain legal matters were passed upon in connection with the original issuance of the 2012 Series B Bonds by Orrick, Herrington & Sutcliffe LLP, New York, New York, as the Initial Bond Counsel to the City. A complete copy of Orrick, Herrington & Sutcliffe's Approving Opinion is contained in APPENDIX F-1 attached hereto. Orrick, Herrington & Sutcliffe LLP has had no involvement whatsoever with respect to preparation of this Reoffering Memorandum or the substitution of the Citibank Liquidity Facility for the existing liquidity facility. Certain legal matters also were passed upon for the City in

connection with the original issuance of the 2012 Series B Bonds by Marion J. Radson, Esq., Gainesville, Florida, former City Attorney of the City.

Certain legal matters in connection with the substitution of the Citibank Liquidity Facility were passed upon for the City by Holland & Knight LLP, Bond Counsel (see APPENDIX F-2 attached hereto), and by Nicolle M. Shalley, Esq., City Attorney and Bryant Miller Olive P.A., as Disclosure Counsel to the City. Certain legal matters with respect to the Citibank Liquidity Facility and the Bank have been passed upon for the Bank by Kutak Rock LLP, Washington D.C., counsel to the Bank.

The legal opinions delivered in connection with the 2012 Series B Bonds express the professional judgment of the attorneys rendering the opinions regarding the legal issues expressly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of the result indicated by that expression of professional judgment of the transaction on which the opinion is rendered or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

## INDEPENDENT AUDITORS

The financial statements of the System as of September 30, 2016 and for the year then ended, included in APPENDIX B attached to this Reoffering Memorandum as a matter of public record and the consent of Purvis, Gray & Company LLP, independent auditors (the "Auditor") to include such documents was not requested. The Auditor was not requested to perform and has not performed any services in connection with the preparation of this Reoffering Memorandum or the issuance of the 2012 Series B Bonds.

The 2012 Series B Bonds are payable from and secured on a parity with all other bonds issued under the Resolution by a pledge of and lien on the Trust Estate See "SECURITY FOR THE 2012 SERIES B BONDS" herein. The audited financial statements are presented for general information purposes only and speak only as of their date.

## FINANCIAL ADVISOR

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

## DISCLOSURE REQUIRED BY FLORIDA BLUE SKY REGULATION

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

not been in default on any bond issued since December 31, 1975 that would be considered material by a reasonable investor.

The City has not undertaken an independent review or investigation of securities for which it has served as conduit issuer. The City does not believe that any information about any default on such securities is appropriate and would be considered material by a reasonable investor in the 2012 Series B Bonds because the City would not have been obligated to pay the debt service on any such securities except from payments made to it by the private companies on whose behalf such securities were issued and no funds of the City would have been pledged or used to pay such securities or the interest thereon.

**ACCURACY AND COMPLETENESS OF OFFERING MEMORANDUM**

The references, excerpts, summaries and incorporations by reference of all resolutions, documents, statutes, and information concerning the City, the System and certain operational and statistical data referred to herein do not purport to be complete, comprehensive and definitive and each such summary and reference is qualified in its entirety by reference to each such respective documents for full and complete statements of all matters of fact relating to the 2012 Series B Bonds, the security for the payment of the 2012 Series B Bonds and the rights and obligations of the owners thereof and to each such statute, report or instrument.

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

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**CERTIFICATION OF OFFERING MEMORANDUM**

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

CITY OF GAINESVILLE, FLORIDA

By: */s/ Edward J. Bielarski, Jr.*
General Manager for Utilities

**APPENDIX A**

**GENERAL INFORMATION REGARDING THE CITY**

## APPENDIX A

## GENERAL INFORMATION REGARDING THE CITY

### General

The City of Gainesville (the "City"), home of the University of Florida, is located in North Central Florida midway between Florida's Gulf and the Atlantic coast. The City is approximately 125 miles north of Tampa, approximately 110 miles northwest of Orlando and approximately 75 miles southwest of Jacksonville. The Bureau of Economic and Business Research at the University of Florida estimated a 2016 population of 257,062 in the Alachua County (the "County") with an estimated 128,612 persons resided within the City limits as of April 2016. The economic base of Gainesville consists primarily of light industrial, commercial, health care and educational activities. The University of Florida is the State's oldest university and, with approximately 50,000 students, is one of the largest universities in the nation.

### Organization and Administration

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

The following are the current members of the City Commission:

| | Term Expires |
|---|---|
| Mayor Lauren Poe | May 2019 |
| Commissioner David Arreola, District 3 | May 2020 |
| Commissioner Harvey M. Budd, At-Large | May 2018 |
| Commissioner Charles E. Goston, District 1 | May 2018 |
| Commissioner Adrian Hayes-Santos, District 4 | May 2019 |
| Commissioner Harvey Ward, District 2 | May 2020 |
| Commissioner Helen K. Warren, At-Large | May 2020 |

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

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

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

**Population**

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

**POPULATION GROWTH**

| Year | City of Gainesville Population | Percentage Increase | Alachua County Population | Percentage Increase | State of Florida Population | Percentage Increase |
|---|---|---|---|---|---|---|
| 2016 | 128,612 | -- | 257,062 | -- | 20,148,654 | -- |
| 2020 | n/a[(1)] | n/a | 267,727 | 4.1% | 21,372,207 | 6.1% |
| 2030 | n/a[(1)] | n/a | 289,502 | 8.1 | 24,070,978 | 12.6 |
| 2040 | n/a[(1)] | n/a | 309,385 | 6.9 | 26,252,141 | 9.1 |

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

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

**Employment**

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

**EMPLOYMENT**

| Year | Unemployment Rate |
|---|---|
| 2007 | 3.10% |
| 2008 | 4.50 |
| 2009 | 7.20 |
| 2010 | 8.20 |
| 2011 | 7.70 |
| 2012 | 6.80 |
| 2013 | 5.80 |
| 2014 | 5.30 |
| 2015 | 4.60 |
| 2016 | 4.20 |

Source: Florida Research and Economic Information Database Application.

**TEN LARGEST EMPLOYERS**
**(SEPTEMBER 30, 2015)**

| Firm | Product/Business | Employees |
|---|---|---|
| University of Florida | Education | 27,600 |
| UF Health | Health Care | 12,705 |
| Alachua Veterans Affairs Medical Center | Health Care | 6,127 |
| Alachua County School Board | Education | 3,904 |
| City of Gainesville | Municipal Government | 2,072 |
| North Florida Regional Medical Center | Health Care | 2,000 |
| Gator Dining Services | Food Services | 1,200 |
| Tacachale Center | Social Services | 970 |
| Nationwide Insurance Company | Insurance | 900 |
| Publix Supermarkets | Grocer | 831 |

Source: Finance Department, City of Gainesville, Florida.

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**Property Tax Data**

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

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

| | | Just Value | | | Exemptions | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Fiscal Year Ended 09/30 | Tax Year | Real Property | Personal Property | Centrally Assessed Property | Governmental | Agricultural | Institutional | Homestead | Other (1) | Total Taxable Assessed Value | Total Direct Tax Rate |
| 2007 | 2006 | $9,127,221,600 | $1,475,928,616 | $1,025,098 | $3,801,414,175 | $34,506,400 | $562,036,357 | $1,221,910,900 | $15,135,250 | $4,969,172,232 | 4.8509 |
| 2008 | 2007 | 10,059,735,400 | 1,931,740,674 | 1,111,824 | 4,354,225,897 | 28,451,900 | 574,033,101 | 1,385,629,369 | 16,885,367 | 5,633,362,264 | 4.2544 |
| 2009 | 2008 | 10,599,500,250 | 1,732,004,529 | 1,149,322 | 4,195,267,980 | 35,549,700 | 647,733,978 | 1,773,423,757 | 14,341,607 | 5,666,337,079 | 4.2544 |
| 2010 | 2009 | 10,534,674,944 | 2,245,414,910 | 1,234,487 | 4,251,801,982 | 39,408,200 | 874,389,881 | 1,594,957,710 | 134,747,020 | 5,886,019,548 | 4.3963 |
| 2011 | 2010 | 10,570,350,300 | 2,241,373,073 | 987,726 | 4,815,548,071 | 37,517,700 | 896,937,822 | 1,313,405,085 | 141,081,893 | 5,608,220,528 | 4.2544 |
| 2012 | 2011 | 10,756,478,800 | 2,308,068,145 | 1,130,083 | 5,343,081,038 | 39,115,900 | 1,029,746,160 | 1,134,254,774 | 117,240,859 | 5,402,238,297 | 4.2544 |
| 2013 | 2012 | 10,437,604,712 | 2,386,565,278 | 1,073,991 | 5,408,327,315 | 37,576,500 | 1,112,522,902 | 993,996,869 | 109,161,684 | 5,163,658,711 | 4.4946 |
| 2014 | 2013 | 10,480,490,440 | 2,587,608,797 | 2,138,554 | 5,609,545,384 | 39,389,400 | 1,095,790,104 | 916,778,157 | 234,075,511 | 5,174,659,235 | 4.5780 |
| 2015 | 2014 | 10,508,455,900 | 2,979,114,148 | 2,210,823 | 5,603,063,413 | 39,298,000 | 1,129,921,784 | 895,414,243 | 178,766,271 | 5,643,317,160 | 4.5079 |
| 2016 | 2015 | 10,815,607,700 | 2,912,715,109 | 2,251,700 | 5,651,530,893 | 40,988,400 | 1,094,785,940 | 992,344,032 | 181,396,571 | 5,769,528,673 | 4.5079 |

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

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

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

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

(1) Tax roll year as of January 1.

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

(3) Sum of real and personal property value.

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

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

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

## PROPERTY TAX LEVIES AND COLLECTIONS LAST TEN FISCAL YEARS

| Fiscal Year Ended September 30, | Total Tax Levy for Fiscal Year | Collected within the Fiscal Year of the Levy | | Collections in Subsequent Years | Total Collections to Date | |
|---|---|---|---|---|---|---|
| | | Amount | Percentage of Levy | | Amount | Percentage of Levy |
| 2007 | $24,104,957 | $23,172,540 | 96.1% | $27,822 | $23,200,362 | 96.2% |
| 2008 | 23,966,576 | 23,035,894 | 96.1 | 32,294 | 23,068,188 | 96.3 |
| 2009 | 24,106,864 | 23,191,605 | 96.2 | 52,556 | 23,244,161 | 96.4 |
| 2010 | 25,876,708 | 24,912,341 | 96.3 | 70,221 | 24,982,562 | 96.5 |
| 2011 | 23,859,613 | 23,007,885 | 96.4 | 14,385 | 23,022,270 | 96.5 |
| 2012 | 22,983,283 | 22,085,295 | 96.1 | 40,697 | 22,125,992 | 96.3 |
| 2013 | 23,208,580 | 22,259,404 | 95.9 | 45,567 | 22,304,971 | 96.1 |
| 2014 | 23,689,590 | 22,573,803 | 95.3 | 82,387 | 22,656,190 | 95.6 |
| 2015 | 25,439,509 | 24,342,225 | 95.7 | 73,286 | 24,415,511 | 96.0 |
| 2016 | 26,008,458 | 24,996,476 | 96.1 | N/A | 24,996,476 | 96.1 |

Source: Finance Department, City of Gainesville, Florida.

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

| | | | Overlapping Rates | | | | |
|---|---|---|---|---|---|---|---|
| Fiscal Year | Tax Year | City of Gainesville Direct Rate | Alachua County | Alachua County School District | St. Johns Water Management District | Alachua County Library District | Total Direct & Overlapping Rates |
| 2007 | 2006 | 4.8509 | 9.1387 | 8.5710 | 0.4620 | 1.5615 | 24.5841 |
| 2008 | 2007 | 4.2544 | 7.8968 | 8.3950 | 0.4158 | 1.3560 | 22.3180 |
| 2009 | 2008 | 4.2544 | 7.8208 | 8.3590 | 0.4158 | 1.3406 | 22.1906 |
| 2010 | 2009 | 4.3963 | 8.2995 | 9.4080 | 0.4158 | 1.3771 | 23.8967 |
| 2011 | 2010 | 4.2544 | 8.6263 | 9.1070 | 0.4158 | 1.4736 | 23.8771 |
| 2012 | 2011 | 4.2544 | 8.5956 | 9.0920 | 0.3313 | 1.4790 | 23.7523 |
| 2013 | 2012 | 4.4946 | 8.5956 | 8.5490 | 0.3313 | 1.4768 | 23.4473 |
| 2014 | 2013 | 4.5780 | 8.7990 | 8.4020 | 0.3283 | 1.4588 | 23.5661 |
| 2015 | 2014 | 4.5079 | 8.7990 | 8.4100 | 0.3164 | 1.4588 | 23.4921 |
| 2016 | 2015 | 4.5079 | 8.7950 | 8.3420 | 0.3023 | 1.4538 | 23.3830 |

Source: Finance Department, City of Gainesville, Florida.

The following table sets forth certain information regarding direct and overlapping debt for the City, as of September 30, 2016.

**OVERLAPPING GENERAL OBLIGATION DEBT[1]**

| Taxing Authority | Taxable Property Value[2] | General Obligation Bonded Debt[3] | Percent of Debt Applicable to City[4] | City's Share of General Obligation Debt[5] |
|---|---|---|---|---|
| City of Gainesville | $6,034,941,259 | $ 0 | 100.00% | $ 0 |
| Alachua County | 0 | 0 | n/a | 0 |
| Alachua County School Board | 0 | 0 | 0 | 0 |
| Alachua County Library District | 0 | 626,982 | 45.54 | 285,530 |
| | | | | $285,530 |

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

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

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

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

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

Source: Finance Department, City of Gainesville, Florida.

**OVERLAPPING SELF SUPPORTING AND NON-SELF SUPPORTING DEBT**
**As of September 30, 2016**

| Taxing Authority | Self Supporting | Non-Self Supporting | Totals |
|---|---|---|---|
| Alachua County [1] | | $51,994,000 | 51,994,000 |
| Alachua County Schools | | 62,742,864 | 62,742,864 |
| Alachua County Library District [1] | | 1,040,000 | 1,040,000 |
| City of Gainesville: | | | |
| Utilities | $948,575,000 | 0 | 948,575,000 |
| Other than Utilities | 1,550,972 | 134,810,854 | 136,361,826 |

[1] FY 2016 data not yet available for the County and the County Library District; amounts shown are as of September 30, 2015 for those two entities.

Source: Finance Department, City of Gainesville, Florida.

**DEBT SUMMARY[1]**
**AS OF SEPTEMBER 30, 2016**

| | Gross | Net |
|---|---|---|
| General Obligation Debt | $ 0 | $ 0 |
| Debt Payable from Non-Ad Valorem Revenues[2] | 134,810,854 | 134,810,854 |
| General Obligation Overlapping Debt[3] | 248,905 | 248,905 |
| Total | $135,059,759 | $135,059,759 |
| | | |
| Maximum Annual Debt Service on Debt Payable from Non-Ad Valorem Revenues after 10/01/2016 | | $15,005,625 |

[1] This includes only City of Gainesville general government debt. The City of Gainesville d/b/a Gainesville Regional Utilities and other self-liquidating debt are not included.

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

[3] Includes general obligation debt of Alachua County School District.

Source: Finance Department, City of Gainesville, Florida.

## PRINCIPAL TAXPAYERS

Tax Roll Year 2015

| Owner/Taxpayer | Taxable Value | Percent of Total Taxable Value |
|---|---|---|
| Gainesville Renewable Energy Center Inc. | $314,316,090 | 5.45% |
| Oaks Mall Gainesville LTD | 125,590,400 | 2.18 |
| HCA Health Services of Florida, Inc. | 79,815,000 | 1.38 |
| AT&T Mobility LLC | 68,499,022 | 1.19 |
| Oak Hammock at the University of FL, Inc. | 54,496,790 | 0.94 |
| North Florida Regional Hospital | 54,486,950 | 0.94 |
| LSH 1601 SW 51st Terrace LP | 35,785,500 | 0.62 |
| S Clark Butler Properties Land Trust | 35,672,790 | 0.62 |
| Duke Energy Florida Inc. | 33,808,372 | 0.59 |
| Cox Communications Inc. | 31,914,417 | 0.55 |
| TOTAL PRINCIPAL TAXPAYERS | $834,385,331 | 14.46% |

Source: Finance Department, City of Gainesville, Florida.

## LIABILITIES OF THE CITY

### Insurance Considerations Affecting the City

*General*

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

*Workers' Compensation, Auto, and General Liability Insurance*

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

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

All funds other than the System enterprise fund (the "Utility Fund") participate in the general insurance program. Risk management/insurance related activities of the Utility Fund are accounted for within the Utility Fund. The Utility Fund purchase plant and machinery insurance from a commercial carrier. An actuarially study completed during fiscal year 2008 resulted in an increase to a balance of $3.3 million. The present value calculation assumes a rate of return of 4.5% with a confidence level of 75%. This reserve is recorded as a fully amortized deferred credit. All claims for fiscal year 2016 and 2015 were paid from current year's revenues. Changes in the insurance reserve for fiscal years 2016 and 2015 were as follows:

| Fiscal Year | Beginning of Fiscal Year Liability | Incurred | Payments | End of Fiscal Year Liability |
|---|---|---|---|---|
| 2015-2016 | $3,337,000 | $1,178,000 | $1,178,000 | $3,337,000 |
| 2014-2015 | 3,337,000 | 1,957,000 | 1,957,000 | 3,337,000 |

There is a claims liability of $6,854,000 included in the General Insurance Fund as the result of actuarial estimates. Changes in the General Insurance Fund's claims liability for fiscal years 2015 and 2016 were as follows:

| Fiscal Year | Beginning of Fiscal Year Liability | Incurred | Payments | End of Fiscal Year Liability |
|---|---|---|---|---|
| 2015-2016 | $6,854,000 | $2,280,237 | $2,280,237 | $6,854,000 |
| 2014-2015 | 6,854,000 | 2,852,652 | 2,852,652 | 6,854,000 |

*Health Insurance*

The City also currently is self-insured for its Employee Health and Accident Benefit Plan (the "Plan"). The Plan is accounted for in an internal service fund and is externally administered, for an annually contracted amount which is based upon the volume of claims processed. Contributions for City employees and their dependents are shared by the City and the employee. Administrative fees are paid primarily out of this fund. Stop-loss insurance is maintained for this program at $300,000 per individual. No claims have exceeded insurance coverage in the last three years. Changes in claims liability for fiscal years 2015 and 2016 were as follows:

| Fiscal Year | Beginning of Fiscal Year Liability | Incurred | Payments | End of Fiscal Year Liability |
|---|---|---|---|---|
| 2015-2016 | $1,310,671 | $24,243,566 | $24,243,566 | $1,310,671 |
| 2014-2015 | 1,310,671 | 22,027,528 | 22,027,528 | 1,310,671 |

**Other Post-Employment Benefit & Retiree Health Care Plan**

*Plan Description.*

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

The RHCP has 746 retirees receiving benefits, 1,052 retirees not currently electing medical coverage and has a total of 1,867 active participants and 133 DROP participants for a total of 3,798.

Ordinance 991457 of the City assigned the authority to establish and amend benefit provisions to the City Commission.

*Annual OPEB Cost and Net OPEB Obligation*

For the fiscal year ended September 30, 2016, the City's annual Other Post-Employment Benefit ("OPEB") cost for the RHCP was $1,677,380. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years ended September 30, 2016, 2015 and 2014 were as follows:

| Year Ended | Annual OPEB Cost | Actual Employer Contribution | Percentage Contributed | Net Ending OPEB Obligation (Asset) |
|---|---|---|---|---|
| 9/30/14 | $3,440,342 | $2,746,676 | 79.84% | $(18,252,553) |
| 09/30/15 | 3,585,790 | 2,972,451 | 82.90 | (17,669,214) |
| 09/30/16 | 1,677,380 | 2,915,780 | 173.83 | (18,907,614) |

Fiscal year ended September 30, 2005 was the year of implementation of GASB 43 and 45 and the City elected to implement prospectively. The City's contributions include $2,375,230, $2,441,107 and $2,228,139 in payments made by the City for the implicit rate subsidy included in the blended rate premiums for active employees which fund the implicit rate subsidy discount provided to the retirees for fiscal years ended September 30 2016, 2015, and 2014, respectively.

*Funding Policy*

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

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

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

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

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

*Actuarial Methods and Assumptions*

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

In the October 1, 2015 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions used included an 8.2% investment rate of return, compounded annually, net of investment expenses. The annual healthcare cost trend rate of 4.5% is the ultimate rate. The select rate was 12% but was decreased to the ultimate rate in 2002. Both the rate of return and the healthcare cost trend rate include an assumed inflation rate of 3.75%. The actuarial valuation of RHCP assets was set at fair market value of investments as of the measurement date. The RHCP's initial unfunded actuarial accrued liability ("UAAL") as of 1994 is being amortized as a level percentage of projected payroll over a closed period of twenty years from 1994 and changes in the UAAL from 1994 through 2003 are amortized over the remaining portion of the twenty-year period. Future changes in the UAAL will be amortized on an open period of ten years from inception.

*Funded Status*

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded (UAAL) (b) – (a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as % of Covered Payroll (b-a)/c |
|---|---|---|---|---|---|---|
| 9/30/16 | $59,442,474 | $59,679,811 | $237,337 | 99.60% | $117,510,876 | .20% |

**Ability to be Sued, Judgments Enforceable**

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

**Debt Issuance and Management**

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

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**Direct Debt**

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

| | Principal Amount Issued | Principal Amount Outstanding as of October 1, 2016 |
|---|---|---|
| Revenue Bonds:[1] | | |
| Guaranteed Entitlement Revenue and Refunding Bonds, Series 1994 | $15,892,220 | $1,502,220 |
| Taxable Pension Obligation Bonds, Series 2003A (Employees' Plan) | 40,042,953 | 32,365,401 |
| Taxable Pension Obligation Bonds, Series 2003B (Consolidated Plan) | 49,851,806 | 43,480,000 |
| Guaranteed Entitlement Revenue and Refunding Bonds, Series 2004 | 9,805,000 | 1,000,000 |
| Capital Improvement Revenue Bonds, Series 2010 | 3,036,907 | 2,314,333 |
| Capital Improvement Revenue Bonds, Series 2014 | 12,435,000 | 11,660,772 |
| Total Revenue Bonds[2] | $131,063,886 | $92,322,726 |
| | | |
| Loans:[3] | | |
| Capital Improvement Revenue Note, Series 2009 | 11,500,000 | 1,579,011 |
| Refunding Revenue Note, Series 2011 | 6,230,000 | 3,820,000 |
| Capital Improvement Revenue Note, Series 2011A | 3,730,000 | 2,010,000 |
| Refunding Revenue Note, Series 2014 | 14,715,000 | 13,130,000 |
| Revenue Refunding Note, Series 2016A | 11,007,187 | 11,007,187 |
| Capital Improvement Revenue Note, Series 2016B | 6,630,000 | 6,630,000 |
| Total Loans | $53,812,187 | $38,176,198 |
| | | |
| Total Debt | $184,876,073 | $130,498,924 |

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

(2) Does not include the CP Notes.

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

**Defined Benefit Pension Plans**

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

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

The Employees' Disability Plan (Disability Plan), a single-employer disability plan, was terminated during Fiscal Year 2015.

*Employees' Plan*

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

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

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

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

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

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

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

Employees are eligible for normal retirement:

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

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

Employees are eligible for early retirement:

- If the date of hire occurred on or before 10/01/2012, after accruing 15 years of pension service credit and reaching age 55 while still employed.
- If the date of hire was on or after 10/02/2012, after accruing 20 years of pension service credit and reaching age 60 while still employed.
- Under the early retirement option, the benefit is reduced by 5/12th of one percent for each month (5% for each year) by which the retirement date is less than the date the employee would reach age 65.
- Employees receive a deferred vested benefit if they are terminated after accruing five years of pension service credit but prior to eligibility for regular retirement. Those employees will be eligible to receive a benefit starting at age 65.

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

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

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

Death benefits are paid as follows:

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

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

*Employees covered by benefit terms.* At September 30, 2016, the following employees were covered by the benefit terms:

| | |
|---|---|
| Active employees | 1,465 |
| Inactive employees: | |
| Retirees and beneficiaries currently receiving benefits | 1,225 |
| Terminated Members and survivors of deceased members entitled to benefits but not yet receiving benefits | 431 |
| Total | 3,121 |

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

actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City contributes the difference between the actuarially determined rate and the contribution rate of employees. Plan members are required to contribute 5% of their annual covered salary. The rate for fiscal year 2016 was 16.88% of covered payroll. This rate was influenced by the issuance of the Taxable Pension Obligation Bonds, Series 2003A. The proceeds from this issue were utilized to retire the unfunded actuarial accrued liability at that time in the Employees' Plan. Differences between the required contribution and actual contribution are due to actual payroll experiences varying from the estimated total payroll used in the generation of the actuarially required contribution rate. Administrative costs are financed through investment earnings.

*Net Pension Liability.* The net pension liability related to the Employee's Plan was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2015 and October 1, 2014, for September 30, 2016 and 2015, respectively.

The components of the net pension liability at September 30, 2016 were as follows (in thousands):

Components of Net Pension Liability

| | |
|---|---|
| Total pension liability | $485,659 |
| Plan fiduciary net position | (357,298) |
| City's net pension liability | $128,361 |
| | |
| Plan fiduciary net position as a percentage of the total pension liability | 73.57% |

*Significant Actuarial Assumptions.* The total pension liability as of September 30, 2016 was determined based on a roll-forward of entry age normal liabilities from the October 1, 2015 actuarial valuation to the pension plan's fiscal year end of October 1, 2015, using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial Assumptions

| | |
|---|---|
| Inflation | 3.75% |
| Salary Increases | 7.00% to 3.75% |
| Investment Rate of Return | 8.20%, net of pension investment expenses |

Mortality Rate:

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table-Dynamic with projection to valuation year.

Long-term Expected Rate of Return:

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

estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

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

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

Discount Rate:

The discount rates used to measure the total pension liability were 8.20% and 8.30% as of September 30, 2016 and 2015, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the actuarially determined contribution rates less the member contributions. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Changes in the Net Pension Liability

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| Balances at 10/01/2015 | $470,947,246 | $334,603,947 | $136,343,299 |
| Changes for the year: | | | |
| Service cost | 7,789,638 | - | 7,789,638 |
| Interest | 38,189,162 | - | 38,189,162 |
| Differences between expected and actual experience | 1,125,190 | - | 1,125,190 |
| Transfer from terminated Disability Plan | - | - | - |
| Changes to assumptions | 4,860,706 | - | 4,860,706 |
| Contributions – employer | - | 13,481,032 | (13,481,032) |
| Contributions – employee | - | 7,947,069 | (7,947,069) |
| Net investment income | - | 39,190,078 | (39,190,078) |
| Benefit payments, including refunds and DROP payouts | (37,252,988) | (37,252,988) | - |
| Administrative expense | - | (670,867) | 670,867 |
| Net changes | 14,711,708 | 22,694,324 | (7,982,616) |
| Balances at 09/30/2016 | $485,658,954 | $357,298,271 | $128,360,683 |

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

The following presents the net pension liability, calculated using the discount rate of 8.2%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (7.2%) or 1 percentage-point higher (9.2%) than the current rate:

| | 1% Decrease (7.2%) | Current Discount Rate (8.2%) | 1% Increase (9.2%) |
|---|---|---|---|
| Net pension liability (in thousands) | $192,073,538 | $128,360,683 | $74,692,322 |

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

[Remainder of page intentionally left blank]

*Pension expense and deferred outflows of resources and deferred inflows of resources.* For the year ended September 30, 2016, the City recognized pension expense for the Employees' Plan of $6,161,128. At September 30, 2016, the City reported deferred outflows of resources related to the Employees' Plan from the following sources:

| | Deferred Outflows of Resources |
|---|---|
| Differences between expected and actual experience | $2,193,813 |
| Net difference between projected and actual earnings on pension plan investments | 14,434,957 |
| Changes to assumptions | 16,684,358 |
| Total | $35,313,128 |

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

| Fiscal Year | |
|---|---|
| 2017 | $8,027 |
| 2018 | 8,027 |
| 2019 | 8,027 |
| 2020 | 1,550 |
| Thereafter | 0 |

*Disability Plan*

The Disability Plan was a contributory defined benefit single-employer plan that covered all permanent employees of the City, except police officers and firefighters whose disability plan is incorporated in the Consolidated Plan. The Disability Plan was terminated during the fiscal year ended September 30, 2015. The net pension liability and related pension assets in an amount which covered the liability were transferred into the Employees' Plan. Assets representing the overfunded portion were disbursed to the Utility Fund and General Capital Projects Fund.

*Consolidated Plan*

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

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

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

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

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

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

Employees are eligible for normal retirement:

- If the date of hire occurred prior to 07/01/2013, after accruing 20 years of pension service credit, regardless of age or after accruing 10 years of pension service credit and reaching age 55 while still employed, or attaining a combination of credited service and age that equals seventy (Rule of Seventy).
- If the date of hire was on or after 07/01/2013, after accruing 25 years of pension service credit, regardless of age or after accruing 10 years of pension service credit and reaching age 55 while still employed, or attaining a combination of credited service and age that equals seventy.

Employees are eligible for early retirement:

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

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

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

- If the retiree was eligible for retirement on or before 07/01/2013 and had at least 25 years of credited service upon retirement, 2% COLA begins after reaching age 55.
- If the retiree was eligible for retirement on or before 07/01/2013 had 20 years of credited service upon retirement, 2% COLA begins after reaching age 62.
- If the retiree was eligible for retirement after 07/01/2013 and had 25 years of credited service upon retirement 1% COLA begins after reaching age 55 and the COLA increases to 2$ after reaching age 62.

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

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

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

Retirement eligibility for Firefighters is as follows:

Employees are eligible for normal retirement:

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

Employees are eligible for early retirement:

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

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

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

- If the retiree had at least 25 years of credited service upon retirement, COLA begins after reaching age 55.

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

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

Death benefits are paid as follows:

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

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

*Employees covered by benefit terms.* At September 30, 2016, the following employees were covered by the benefit terms:

| | |
|---|---|
| Active employees | 389 |
| Inactive employees: | |
| Retirees and beneficiaries currently receiving benefits | 410 |
| Vested terminated members entitled to future benefits | 19 |
| Total | 818 |

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

The City is required to contribute at an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Firefighters contribute 9.0% of gross pay and Police Officers contribute 7.5% of gross pay. The City's contribution rate for fiscal year 2016 was 14.04% of covered payroll for police personnel and 18.11% for fire personnel. This rate was influenced by the issuance of the Taxable Pension Obligation Bonds, Series 2003B. In addition, State contributions, which totaled $1,242,741, are also made to the plan on behalf of the City under Chapters 175/185, Florida Statutes. These State contributions are recorded as revenue and personnel expenditures in the City's General Fund before they are recorded as contributions in the Consolidated Pension Fund. Differences between the required contribution and actual contribution are due to actual payroll experiences varying from the estimated total payroll used in the generation of the actuarially required contribution rate. Administrative costs are financed through investment earnings.

*Net Pension Liability.* The net pension liability related to the Consolidated Plan was measured as of September 20, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The components of the net pension liability at September 30, 2016 were as follows:

Components of Net Pension Liability

| | |
|---|---|
| Total pension liability | $258,251,636 |
| Plan fiduciary net position | (205,667,930) |
| City's net pension liability | $ 52,583,706 |
| Plan fiduciary net position as a percentage of the total pension liability | 79.64% |

*Significant Actuarial Assumptions.* The total pension liability as of September 30, 2016 was determined based on a roll-forward of entry age normal liabilities from the October 1, 2015 actuarial valuation, using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial Assumptions

| | |
|---|---|
| Inflation | 3.00% |
| Salary Increases for employees age less than 30 | 7.00% |
| Salary Increases for employees age 30 to 34 | 6.00% |
| Salary Increases for employees age 35 to 39 | 5.00% |
| Salary Increases for employees age 40 and older | 4.00% |
| Investment Rate of Return | 8.20%, net of pension investment expenses |

Mortality Rate:

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

Other Assumptions:

The actuarial assumptions used as of September 30, 2016 were based on the assumptions approved by the Board in conjunction with an experience study covering the 5 year period ending on September 30, 2010. Due to plan changes first valued in the October 1, 2012 actuarial valuation, changes to the assumed retirement rates and the valuation methodology for the assumed increase in benefit service for accumulated sick leave and accumulated vacation paid upon termination were made. Payroll growth assumptions were updated in 2012 and investments were reviewed by the Board in February of 2015 based on an asset liability study reflecting the current investment policy.

Long-Term Expected Rate of Return:

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

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

Development of Long Term Discount Rate – Arithmetic

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

Discount Rate:

The discount rate used to measure the total pension liability was 8.2%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the actuarially determined contribution rates less the member and State contributions. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Changes in the Net Pension Liability

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| Balances at 10/01/2014 | $245,915,632 | $217,047,910 | $28,867,722 |
| Changes for the year: | | | |
| Service cost | 4,094,841 | - | 4,094,841 |
| Interest | 23,375,806 | - | 23,375,806 |
| Differences between expected and actual experience | (140,568) | - | (140,568) |
| Changes to assumptions | 2,608,508 | - | 2,608,508 |
| Contributions - employer | - | 3,682,847 | (3,682,847) |
| Contributions - employee | - | 1,972,417 | (1,972,417) |
| Contributions – state | - | 1,269,827 | (1,269,827) |
| Net investment income | - | (93,259) | 93,259 |
| Benefit payments, including refunds and DROP payouts | (17,602,583) | (17,602,583) | - |
| Administrative expense | - | (609,229) | 609,229 |
| Net changes | 12,336,004 | (11,379,980) | 23,715,984 |
| Balances at 09/30/2015 | $258,251,636 | $205,667,930 | $52,583,706 |

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

The following presents the net pension liability, calculated using the discount rate of 8.2%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (7.2%) or 1 percentage-point higher (9.2%) than the current rate:

| | 1% Decrease (7.2%) | Current Discount Rate (8.2%) | 1% Increase (9.2%) |
|---|---|---|---|
| Net pension liability | $81,481,528 | $52,583,706 | $28,464,934 |

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

*Pension expense and deferred outflows of resources and deferred inflows of resources.* For the year ended September 30, 2016, the City recognized pension expense for the Consolidated Plan of $10,739,415. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to the Consolidated Plan from the following sources:

| | Deferred Outflows of Resources | Deferred Inflow of Resources |
|---|---|---|
| City contributions after measurement date | $3,716,354 | - |
| Net difference between projected and actual earnings on pension plan investments | 14,069,711- | $(3,303,002) |
| Difference between expected and actual experience | 3,620,766 | (113,536)- |
| Total | $21,406,831 | $(3,416,538) |

The $3,716,354 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Consolidated Plan will be recognized in pension expense as follows:

| Fiscal Year | |
|---|---|
| 2017 | $3,395,663 |
| 2018 | 3,395,663 |
| 2019 | 3,395,663 |
| 2020 | 3,992,031 |
| Thereafter | 94,920 |

**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS**

**APPENDIX C**

**THE SYSTEM**

**APPENDIX C**

**THE 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 (including certain utility services to the University of Florida). The System also provides wholesale wastewater service to the City of Waldo. 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 and 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 94,795 customers in the fiscal year ended September 30, 2016 and having a maximum net summer generating capacity of 525 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 34,496 customers in the fiscal year ended September 30, 2016.

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 71,546 and 64,781 customers, respectively, in the fiscal year ended September 30, 2016. The water system has a nominal capacity of 54 Mgd and the wastewater system has a treatment capacity of 22.4 million gallons per day ("Mgd") annual average daily flow ("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. GRUCom served an average of 6,472 Internet access customer connections and 152 dial-up customers in the fiscal year ended September 30, 2016.

**Utility Advisory Board**

For nearly two years (February 2014 to October 2015), the City Commission studied and evaluated governing board options for the City owned utilities doing business as "Gainesville Regional Utilities" ("GRU"). That effort culminated with the City Commission's adoption of Ordinance No. 140384 on November 19, 2015, which created a new utility advisory board (the "Utility Advisory Board") to advise and make recommendations to the City Commission on all aspects of governance of the System's electric, gas, telecommunications, water and wastewater utilities. The Utility Advisory Board is comprised of seven members appointed by the City Commission, all of whom reside within the System's service area and receive utility service from GRU. The Utility Advisory Board serves as an advisor to the City Commission on all policy and governance decisions to be made by the City Commission regarding utility services; serves as a channel of communications between the City Commission, utility staff and the

utility customers; and considers and makes recommendations regarding proposed changes in fees, rates, or charges for utility services. The Utility Advisory Board has no rate setting authority.

**Legislative Matters**

Representative Keith Perry, serving in the Florida House of Representatives District 2 (now Senator Keith Perry, serving in the Florida Senate District 8), proposed bills for the 2014, 2015, and 2016 Florida Legislative Sessions regarding the governance of the City of Gainesville's utilities. The draft bills have varied in substance, but generally propose a voter referendum to amend the City's Charter by creating a utility authority that is a unit of the City, with a five member board appointed by the Gainesville City Commission. The utility authority board would replace the City Commission as the governing body vested with final decision making authority over utility matters including, but not limited to, the authority to employ a utilities manager, set rates, and reduce over time the percentage of revenue that is transferred from the System to the City's General Fund.

The 2016 bill was approved by the State Legislature, but was vetoed by the Governor because it provided an annual salary for each board member.

On February 9, 2017, State Representative Chuck Clemons, Sr., filed House Bill 759, which is largely identical in substance to the 2016 bill, with one exception – the board members receive no salaries. House Bill 759 was approved by both the House and Senate and is pending transmittal to the Governor for his signature or veto.

The City and the System may, from time to time in the future, be subject to changes in laws or regulations, many of which are beyond the control of the City, and which could have an effect on the existence, governance, revenues, management, operations and finances of the City and the System.

**Management of the System**

The daily operations of the System are managed by the General Manager for Utilities. In addition to the General Manager for Utilities, key members of the System's leadership team include five operational managers, a Chief Operating Officer, the Chief Financial Officer and the Utilities Attorney. The operational managers consist of an Energy Delivery Officer, Water/Wastewater Officer, Chief Customer Officer, Energy Supply Officer and a Business Services Officer.

***Mr. Edward J. Bielarski, Jr., General Manager for Utilities,*** joined the System as a Charter Officer and General Manager in June of 2015 replacing the Interim General Manager who had served since November 2013. Mr. Bielarski has over 20 years of experience in the utility industry, having worked with Constellation Energy Group (Maryland) as a Project General Manager and a Project Chief Financial Officer, and Lehigh County Authority (Pennsylvania) as a Chief Operating Officer and Chief Financial Officer. As a Charter Officer, he reports directly to the seven-member City Commission and to the Utilities Advisory Board (UAB). Mr. Bielarski currently serves on the Board of Directors for The Energy Authority, Inc. (TEA) and the Florida Reliability Coordinating Council (FRCC). In his role as General Manager, Mr. Bielarski 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.

***Mr. Gary L. Baysinger, Energy Delivery Officer,*** joined the System in 2006. He was appointed interim Energy Delivery Officer in January 2016 and was made permanent in January 2017. Mr. Baysinger previously served as Work & Resource Management Manager and holds a Bachelor of Science in Industrial Engineering from Kent State University. Mr. Baysinger currently serves as Vice-Chair of the Florida Society of Maintenance and Reliability Professionals and maintains CMRP and CMM credentials. As the Energy Delivery Officer, Mr. Baysinger oversees the construction, operation and maintenance of the System's electric transmission and distribution facilities and the natural gas transmission and distribution facilities, and is also responsible for operations engineering, system control, substations and relay/control, City gate stations, electric and gas metering, and field services.

***Mr. Thomas R. Brown, P.E., Chief Operating Officer,*** joined the System in September of 2015 and was appointed to this role in July 2016. Mr. Brown has worked as an energy industry executive for 37 years, including most recently as the Vice President/Commercial Manager of Leidos-Plainfield Renewable Energy in Plainfield, Connecticut. He also served in executive management positions with Cogentrix, El Paso Merchant Energy and Ridgewood Power Corporation. Mr. Brown holds a Master of Business Administration degree from Indiana University of Pennsylvania and a Bachelor of Science degree in Mechanical Engineering from Pennsylvania State University, and is a registered Professional Engineer. In his current role, Mr. Brown oversees and manages the System's Energy Supply, Energy Delivery, and Water/Wastewater business operations.

***Mr. Justin M. Locke, Chief Financial Officer,*** joined the System in October 2015. Mr. Locke has worked in the utilities industry for more than 20 years, including most recently as Vice President of Finance at CPS Energy in San Antonio, Texas. He also served as Business Manager and CFO of Guadalupe Valley Electric Cooperative, and Director of Finance and CFO of the Brownsville Public Utilities Board. A graduate of Rice University's Executive Education program, he also holds a degree in Finance and Risk Management from St. Mary's University, San Antonio. Mr. Locke is responsible for the accounting and finance departments, which maintain the financial integrity of the combined System.

***Nicolle M. Shalley, Esq., City Attorney, presently serving as Utilities Attorney,*** Nicolle M. Shalley, Esq., City Attorney has been with the City Attorney's Office since 2006 and has been the City Attorney and supervisor of the Utilities Attorney since October 2012. She is acting as Utilities Attorney for this transaction.

***Keino Young, Esq., Utilities Attorney,*** has been with the City since May, 2017. The Utilities Attorney works under the direction and supervision of the City Attorney. He will act as Utilities Attorney for all transactions going forward.

***Mr. Anthony Cunningham, P.E., Water/Wastewater Officer,*** has been with the System for over 15 years, was appointed to his position in 2016 and previously served as Water/Wastewater Engineering Director. Mr. Cunningham's entire 22 year professional career has been in the water and wastewater industry including 7 years as a consulting civil engineer at Causseuax & Ellington, Inc. He has held various positions through his years at the System including; Strategic Planning Engineer, Senior Environmental Engineer, Acting Water Distribution and Wastewater Collection Director, and Engineering Director. He holds a Bachelor of Science degree in Engineering from the University of Florida and is a registered Professional Engineer in the State of Florida. Mr. Cunningham is responsible

for planning, directing, coordinating and administering all activities and personnel of the Water and Wastewater Department. He directs the design, construction, operation and maintenance of all the water and wastewater systems to deliver safe, reliable, and competitively priced services.

***Mr. William J. Shepherd, Chief Customer Officer,*** has been with the System for over 23 years, was appointed to his position in September 2015 and previously served as the Director of Customer Operations. The majority of Mr. Shepherd's career has been in Energy and Business services where he has played a critical part in the design and development of the System's nationally recognized energy efficiency programs. Mr. Shepherd holds a Masters of Business Administration from the University of Florida and a Bachelor of Science in Aeronautical Science from Embry Riddle Aeronautical University, and is a Certified Energy Manager (CEM). Mr. Shepherd is responsible for customer service, billing, collections, mail services, quality control, facilities, purchasing, cashiers, energy and business services, and new services.

***Mr. Dino. De Leo, Energy Supply Officer***, joined the System in September 2006 and formerly served as Production Assurance Support Director. Mr. De Leo was appointed interim Energy Supply Officer in February 2016 and was made permanent in January 2017. Mr. De Leo has worked as an executive in the energy industry for over 36 years and, prior to joining GRU, served in various leadership roles in the US Navy Submarine force where he retired after 26 years of service in 2006. He holds a Bachelor of Science in Nuclear Engineering from the University of Florida, a Bachelor of Science in Business Administration degree from Columbia College and a Master of Business Administration from Brenau University. Mr. De Leo 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. He 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.

***Mr. J. Lewis Walton, Chief Business Services Officer,*** joined the System in March 2008, and has more than 20 years of experience developing, implementing, marketing and managing customer-driven products and services in both competitive markets and the utility industry. Before his appointment to Chief Business Services Officer in September 2015, Mr. Walton served progressively as Marketing & Communications Manager, Director of Marketing and Business Solutions, and most recently as Chief of Staff for GRU's combined utility systems. Mr. Walton holds a Communications Degree from Auburn University and previous to his arrival at GRU, progressed through various operations, sales, marketing, and management positions at both Roadway Package Systems, which is now FedEx Ground, and at Lee County Electric Cooperative in Southwest Florida. Mr. Walton oversees the planning, operations and administration of GRUCom, the System's competitive fiber optic telecommunications unit, as well as the natural gas marketing program, economic development and development of ancillary products and services for the combined System.

**Labor Relations**

The System presently employs approximately 850 persons. All personnel are City employees and are solely under the management of the City. Florida law prohibits public employees from striking.

The City has historically maintained good labor relations with respect to the System. Approximately 560 of the System's employees are represented by Local No. 3170 of the Communications

Workers of America (the CWA). The current agreements with the CWA (Non-Supervisory and Supervisory), represent a term that expires December 31, 2018.

**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 customers in the Gainesville urban area which includes the City and a portion of the surrounding unincorporated area. Wholesale electric services are currently provided to Alachua and the City of Winter Park, Florida ("Winter Park"). 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 Duke. Electric service is also provided in the unincorporated areas of the County by Duke, 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 has been approved by the Florida Public Service Commission ("FPSC") through 2017 and is currently in negotiations for further extension. See the UTILITY SERVICE AREA MAP on the following page.

**Customers**

The System has experienced modest growth in customers of 0.06% per year since 2012. The following tabulation shows the average number of electric customers for the fiscal years ended September 30, 2012 through and including September 30, 2016.

| | Fiscal Years ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 |
| Retail Customers (Average): | | | | | |
| Residential | 82,039 | 82,440 | 83,117 | 83,796 | 84,069 |
| Commercial and Industrial | 10,423 | 10,467 | 10,602 | 10,677 | 10,726 |
| Total | 92,462 | 92,907 | 93,719 | 94,473 | 94,795 |

Of the 94,795 customers in the fiscal year ended September 30, 2016, 10,726 commercial and industrial customers provided approximately 56% 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 (Jacksonville), the Municipal Electric Authority of Georgia ("MEAG Power"), Nebraska Public Power District, South Carolina Public Service Authority, and American Municipal Power. TEA has offices in Jacksonville, Florida and Seattle, Washington and provides power marketing, trading, and risk management services throughout most of the United States.

TEA currently works with over 50 public power clients that represent of 24,000 MW of peak demand and 30,000 MW of installed generation capacity across the U.S. TEA manages a diverse generation portfolio that has proven advantageous in terms of market presence. 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 applicable 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 optimizes the System's gas transportation entitlements. 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 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.

The System provides guarantees to TEA and to TEA's banks to secure letters of credit issued by the banks to cover purchase and sale contracts for electric energy, natural gas and related transmission. In accordance with the membership agreement between the System and its joint venture members and with the executed guaranties delivered to TEA and to TEA's banks, the System's aggregate obligation for electric energy marketing transactions entered into by TEA on behalf of its members was $9.6 million as of September 30, 2016. The System's aggregate obligation for TEA's natural gas marketing transactions, under similar agreements and executed guaranties as of September 30, 2016 and 2015, was $13.5 million and $7.4 million respectively.

For a discussion of the System's investment in TEA and its commitments to TEA as of September 30, 2016 and 2015, see Note 3 to the financial statements of the System "Investment in The Energy Authority" referenced 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.

With support from TEA, GRU had been exploring the benefits and consequences of combining GRU's generation with that of another entity and economically dispatching the combined fleet through coordinated dispatch. The coordinated dispatch model allows JEA (also part owner of TEA) and GRU to dispatch their generation fleets as if they were one. The most economical units can supply power to meet the combined demand.

The coordinated dispatch model creates another option to provide power at a lower price point, but is not an obligation. GRU and JEA would dispatch their two systems as one and establish day-ahead (and in the potential future, week-ahead and month-ahead transactions) schedules for power flows between the entities. The pricing of the power flowing during each hour is determined by the avoided cost of the entity selling the power plus a margin. The margin is determined by the savings between dispatching the systems separately versus together.

The analysis of the benefits showed the ability to reduce JEA's production cost by running their fleet at a point of better thermal efficiency when serving part of the GRU demand. GRU's savings were the result of serving load with lower-cost power generated by JEA, rather than from its own fleet. The agreement was signed in March 2016 and coordinated dispatch began in May 2016. As of February 2017, GRU has realized approximately $1.8 million in savings as a result of the agreement.

*Retail and Wholesale Energy Sales*

In the fiscal year ended September 30, 2016, the System sold 2,018,118 megawatt hours (MWh) of electric energy to its retail and firm wholesale customers (excluding interchange and economy sales). The System currently has a firm "all requirements" wholesale sales contract with Alachua. This contract, which originated in 1988, was renewed April 1, 2016 for a term of seven years. "All requirements" services include control area voltage and frequency regulation and all other ancillary services. 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, 2012 through September 30, 2016. Year-to-year variability is due primarily to the effects of weather on heating and cooling loads. For the fiscal year ended September 30, 2016, there was a 4.3% increase in residential MWh sales from the prior year.

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**Retail and Wholesale Energy Sales**

| | Fiscal Years ended September 30, | | | | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** | **2016** |
| Energy Sales–MWh: | | | | | |
| Residential | 753,513 | 752,131 | 771,884 | 792,704 | 819,431 |
| General Service, Large Power and Other | 945,131 | 937,112 | 941,578 | 951,412 | 977,797 |
| Firm Wholesale[(1)] | 193,717 | 130,990 | 119,447 | 190,103 | 220,890 |
| Total | 1,892,361 | 1,820,233 | 1,832,909 | 1,934,219 | 2,018,118 |
| Average Annual Use per Customer–kWh: | | | | | |
| Residential | 9,185 | 9,123 | 9,287 | 9,460 | 9,747 |
| General Service, Large Power and Other | 90,686 | 89,530 | 88,811 | 89,109 | 91,161 |

(1) The System had been in an "all requirements" wholesale sales contract with Seminole Electric Cooperative, Inc. until December 31, 2012. The decrease in Firm Wholesale from 2012 and 2013 is a result of the expiration of the Seminole "all-requirements" contract. Sales to the City of Winter Park began January 2015.

The contract referred to prior to the table includes management of Alachua's 0.019% share of the St. Lucie Unit project, as well as, compliance responsibilities of the North American Electric Reliability Corporation, Inc. ("NERC"). During the fiscal year ended September 30, 2016, the System sold 133,040 MWh to Alachua and received $8,632,823 in revenue from those sales, which represented approximately 6.6% of total energy sales (excluding interchange sales) and 3.2% of total sales revenues.

Pursuant to Florida's Interlocal Cooperation Act of 1969, Chapter 163, Florida Statutes, the System entered into an Interlocal Agreement with Winter Park on February 24, 2014, effective January 1, 2015 and expiring on December 31, 2018. Pursuant to this Agreement, the System has agreed to sell 10 MW of capacity and the associated energy on a 7 day/24 hours a day "must-take" basis, except that Winter Park may designate up to 500 hours per year during which the "must-take" quantity may be 5 MW.

*Interchange and Economy Wholesale Sales*

The System has participated in short-term power sales to other utilities through TEA where market opportunities exist. Due to new natural gas-fired generation in the market, and low and stable natural gas prices, these opportunities are limited. In recent years, net revenues from interchange sales as reflected in the following table have been modest.

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

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Net Revenues (Loss) | ($693) | $123 | $673 | $369 | $126 |
| Percent of Total Electric System Net Revenues | 0.0% | 0.1% | 0.9 % | 0.5% | 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 a duration of 24 months are made through TEA. 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, 2016, 21% of power for retail and wholesale sales was obtained through non-firm off-system purchases, allowing customers to benefit from less expensive gas-fired power available for purchase from the market.

**Renewable Energy**

Since 2006, renewable energy and carbon management strategies became a major component of the System's long-term power supply acquisition program. These renewable resources include additional landfill gas to energy capacity, bio-mass and solar. The System instituted the nation's first European-style solar feed-in-tariff (FIT) (discussed below) to be offered by a utility. The System also entered into a thirty (30) year long-term power purchase agreement (PPA) for the purchase of 102.5 MW (net firm) of biomass-fueled power generation from the Gainesville Renewable Energy Center (GREC) described under "Energy Supply System – *Power Purchase Arrangements – Gainesville Renewable Energy Center*" herein. The costs of acquiring these resources are included in the System's fuel and purchased power adjustment clause, resulting in recovery from all customers. The System's renewable energy portfolio is part of a long-term strategy to hedge against potential future carbon tax and trade programs. See "Future Power Supply" below for more information on the System's renewable energy resources. See also "FACTORS AFFECTING THE UTILITY INDUSTRY - Air Emissions - *The Clean Air Interstate Rule (CAIR)*" below concerning the 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.

**Energy Supply System**

*Generating Facilities*

The System owns generating facilities having a net summer continuous capability of 520.5 MW. In addition, the System has exclusive rights to the capacity and energy from a 102.5 MW plant pursuant to a PPA. Combined PPA entitlements and System owned generation total 623 MW of net dispatchable

summer continuous capacity. The System also is entitled to the capacity and non-dispatchable energy from a landfill gas to energy plant of approximately 3.0 MW. These facilities are connected to the Florida Grid and to the System's service territory over 138 kilovolt (kV) and 230 kV transmission facilities that include three interconnections with Duke 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 Generating Facilities are set forth in the following table and described herein.

| Existing Generating Facilities | | Fuels | | Net Summer Capability |
|---|---|---|---|---|
| Plant Name | Unit No. | Primary | Alternative | (MW) |
| JRK Station | | | | |
| | Steam Unit 8 | Waste Heat | — | 36 |
| | Combustion Turbine 4 | Natural Gas | Distillate Fuel Oil | 72 |
| | | | | 108 |
| Deerhaven Generating Station | | | | |
| | Steam Unit 2 | Bituminous Coal | — | 228 |
| | Steam Unit 1 | Natural Gas | Residual Fuel Oil | 75 |
| | Combustion Turbine 3 | Natural Gas | Distillate Fuel Oil | 71 |
| | Combustion Turbine 2 | Natural Gas | Distillate Fuel Oil | 17.5 |
| | Combustion Turbine 1 | Natural Gas | Distillate Fuel Oil | 17.5 |
| | | | | 409 |
| South Energy Center | | | | |
| | SEC-1 | Natural Gas | — | 3.5 |
| | | | | 520.5 |
| Plant Entitlement | GREC | Biomass | — | 102.5 |
| | | | | 623 |
| Base Landfill | | Landfill Gas | — | 3 |
| | | | | 626.0 |

***JRK Station*** – The John R. Kelly Station (the "JRK Station") is located in downtown Gainesville. The JRK Station consists of one combined cycle combustion turbine (CC1) unit with a net summer generation capability of 108 MW. The unit's primary fuel is natural gas and the alternate fuel is #2 oil. The addition of 102.5 MW of biomass power to the System's generation mix by the PPA with Gainesville Renewable Energy Center, LLC (GREC LLC) originally resulted in a long range forecast of lower capacity factors for CC1. However, as natural gas prices have generally been lower, CC1 operates more as a baseload unit. That theme was true in fiscal year 2016 and continues in fiscal year 2017.

***Deerhaven*** – The Deerhaven Generating Station ("Deerhaven" or 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. The DGS consists of two steam turbines and three combustion turbines with a cumulative net summer capability of 409 MW. Unit 1 (DH 1) is a

conventional steam unit with a net summer capability of 75 MW. Its primary fuel is natural gas and its alternate fuel is #6 oil. Unit 2 (DH 2) is a coal-fired, conventional steam unit with a net summer capability of 228 MW. Two combustion turbines are rated at 17.5 MW each and the third combustion turbine at 71 MW. All three combustion turbines have natural gas as their primary fuel and #2 oil as an alternate fuel.

DH 2 was the first zero liquid discharge power plant built east of the Mississippi River. No industrial wastewater or contact storm water leaves the site. Brine salt by-product from process water treatment is transported off site to a Class III landfill due to capacity constraints. The Deerhaven site has a coal combustion products/coal combustion residuals (CCP/CCR) landfill that provides disposal capacity for CCR, fly and bottom ash, as well as flue gas scrubber by-product from the air quality control system (AQCS). DH 2 has an AQCS consisting of an electrostatic precipitator and fabric filter for particulate control, a dry circulating scrubber for sulfur dioxide ($SO_2$), acid gas, and mercury (Hg) reduction, and a selective catalytic reduction (SCR) system for reduction of the oxides of nitrogen ($NO_X$) to meet or exceed regulatory requirements.

Since 2009, the operational mode of DH 2 has shifted from a high capacity factor base load to deep load cycling operation. This is the result of many factors including: flat megawatt-hour sales, the availability of low cost gas and the addition of 102.5 MW of biomass power to the System's generation mix by the PPA with GREC LLC. A cost of cycling engineering study has been performed to accurately determine the long term maintenance cost resulting from this operational mode. The costs are utilized in both long range generation planning and short term unit commitment. Additionally, operational and physical changes necessary to reduce the cost of this mode of operation have been identified and are in various stages of implementation. The findings of the cycling engineering study have been incorporated into the budget and reflected in the CIP.

To assure reliability, considerable investment continues to be made in both physical components and control systems. In addition, the System has invested in a full scale, high fidelity simulator for operator training and control logic quality control. During fiscal year 2017, the System projects to spend approximately $1.4 million on decommissioning the circulating dry scrubber that was installed in 2009 due to structural integrity issues. This environmental control equipment is being replaced with upgraded structural support and a corrosion/erosion resistance liner that is made of C-276 alloy. The replacement and upgrades are expected to be completed before the summer peak season and is expected to cost the System approximately $4.6 million but will better ensure the long-term reliability of the environmental control equipment.

***Crystal River 3***– Crystal River 3 (CR-3) is a retired nuclear powered electric generating unit which had a net summer capability of 838 MW, located on the Gulf of Mexico in Citrus County, Florida, approximately 55 miles southwest of Gainesville. Duke was the majority owner. In February of 2013, Duke announced that CR-3 would be permanently shut down and retired. The System owned a 1.4079% ownership share of CR-3 equal to approximately 12.7 MW (11.846 MW delivered to the System). In 2012, the minority owners, including the System, agreed to have the Florida Municipal Power Agency (FMPA) represent their interests in negotiating a settlement with Duke for damages resulting from the premature retirement of CR-3. Duke maintained insurance for property damage and incremental costs of replacement power resulting from prolonged accidental outages from Nuclear Electric Insurance, LTD. (NEIL). The System has received its allocated insurance proceeds of $1,308,211, of which $660,951 was credited on invoices.

FMPA, on behalf of the minority owners, negotiated a settlement with Duke. The settlement was executed by all parties with an effective date of September 26, 2014. The settlement transferred all of the System's ownership interests in CR-3 and the requisite Decommissioning Funds to Duke. In October 2014, the System received reimbursement of $219,706 in operation and maintenance expenses forgiven by the settlement. The ownership transfer was approved by the Nuclear Regulatory Commission (NRC) on May 20, 2015. Upon the NRC's approval of ownership transfer, the minority owners received certain cash settlements and Duke agreed to be responsible for all future costs and liabilities relating to CR-3 including decommissioning costs. On October 30, 2015, the transfer of ownership interests in CR-3 closed, and the System received a settlement of $9.56 million as a minority owner of CR-3 and $618,534 as a former purchaser of power from CR-3. Consequently, CR-3 is not shown on the table of generating facilities.

For further discussion regarding the Crystal River 3 generating unit, see Note 5 to the audited financial statements of the System "Jointly Owned Electric Plant" referenced in APPENDIX B attached hereto.

***South Energy Center*** – The South Energy Center is a combined heat and power facility dedicated to serve a 500,000 square foot, 200-bed teaching hospital with Level I trauma center belonging to UF Health/Shands Teaching Hospital and Clinics ("UF Health") at the University of Florida. The South Energy Center provides for all of the hospital's energy needs for electricity, steam, and chilled water. The South Energy Center is also responsible for providing medical gas infrastructure.

The South Energy Center provides the hospital with a highly redundant electric microgrid that is capable of operating either grid-connected or grid-independent to meet 100% of the hospital's needs. The South Energy Center has two grid connections for normal power, and a 3.5 MW on-site combustion turbine to provide full standby power to the hospital and energy center, as well as a planned 2.25 MW fast-start diesel generator to provide code-compliant essential power for the hospital. The combustion turbine is installed in a combined-heat-and-power configuration and is typically run base-loaded to provide export power to the grid and steam to the hospital. All plant systems for electric, chilled water, and steam have high levels of equipment redundancy to minimize the potential of an outage. During 2016, the South Energy Center provided 1.5% of the System's generation.

The South Energy Center is owned and operated by the System, and provides services under a 50-year "cost plus" contract with UF Health. The medical campus has been master planned for 3,000,000 square feet of facilities at build out, the timing of which is contingent upon future economic conditions. In August 2013, UF Health advised the System of its commitment to construct an additional hospital tower of similar size next to the existing tower, approximately doubling the loads served by the South Energy Center. The South Energy Center Phase II may also provide services to customers other than UF Health. Construction commenced on the new hospital and the System's infrastructure in late 2014 and completion is expected in December 2017.

The System is currently adding energy and thermal capacity to the South Energy Center to serve a new 500,000 square foot cardiovascular and neuromedicine hospital tower under construction. As part of this expansion, the System is adding a 7.4 MW natural gas-fired reciprocating engine, a 3,000 ton chiller, a 3 MW diesel-fired engine, and ancillary equipment. The cost for this capacity addition will be approximately $30 million. All capital and operating costs associated with this capacity addition will be recovered under the System's long-term contract with UF Health. The System's capacity additions will be completed in summer 2017, while the new hospital tower will open in December 2017.

*Power Purchase Arrangements*

***Gainesville Renewable Energy Center*** – The System has a PPA for all the available energy, delivered energy and environmental attributes from GREC, a 102.50 MW biomass fuel generating facility, located on property leased from the System at the DGS site. The 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. Such fuel is in accordance with the strict sustainability standards of the PPA. GREC began commercial operation on December 17, 2013 (COD). The pricing elements for energy under the PPA include four components: (a) a non-fuel energy charge (NFEC); (b) a fixed operating and maintenance charge (FOM); (c) the fuel cost; and (d) a variable operating and maintenance charge (VOM). The NFEC and FOM charges constitute approximately 65% of the total cost (assuming 90% availability and capacity factors) and are fixed over the term of the PPA. Fuel cost is based on actual costs with gain sharing when the actual cost is lower than target, which it has been since COD. The VOM charge escalates according to a consumer price index. The PPA provides liquidated damages for performance below contractual levels of reliability. If the unit is unavailable, the PPA is constructed such that there will be no cost to the System, other than reimbursement of ad valorem taxes.

GREC is a merchant power plant within the System's NERC Balancing Authority. This imposes regulatory responsibilities on both GREC LLC and the System. Pursuant to the rights and obligations of the PPA and regulatory requirements of NERC, the System has sole control of the dispatch of GREC. GREC is equipped with Best Available Control Technology (BACT) 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. GREC received its Title V Operating Air Emissions Permit effective January 1, 2015, which must be renewed every five years.

For information about preliminary discussions regarding the potential purchase of the GREC biomass power generation plant by the City, see "SUMMARY OF COMBINED NET REVENUES" herein.

Pursuant to the PPA with GREC LLC, GREC LLC may not sell GREC, either directly or indirectly, through a change of control of GREC LLC during the term of the PPA unless GREC LLC has complied with the following: prior to selling GREC, GREC LLC must give notice to the System of GREC LLC's intent to sell GREC and the System has 60 days from such notice to prepare an offer (the "First Offer") to purchase GREC. GREC LLC must negotiate in good faith exclusively with the System for a minimum of 30 days from receipt of the First Offer to attempt to reach agreement on the terms of a purchase. If the System and GREC LLC cannot reach an agreement on sale terms within the 30 days of receipt of the First Offer, then GREC LLC is provided 360 days from the date of the System delivering the First Offer to close on a sale of GREC to an unaffiliated third party for a price and for terms that are no less than the price and no more onerous than the terms of the System's First Offer.

The recent decline in the costs of natural gas and coal have made CC1 and DH 2 more cost beneficial than GREC. As such, GREC has remained in standby and it is anticipated that GREC will remain in standby unless needed for reasons of System reliability or when System demand and economics dictate otherwise. See "SUMMARY OF COMBINED NET REVENUES" below.

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

additional capacity is projected for the future. Power from the Baseline Landfill is wheeled to the System over Duke's transmission system.

*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 fiscal year 2016, net energy for load (NEL) was served as follows: coal 20.66%; biomass 0.86%; natural gas 54.53%; landfill gas 1.19%; solar 1.14%; oil 0.01%. The remainder of NEL was served by spot purchase power. The System, as both a buyer in the fuel markets and a producer of power, hedges risk and volatility by the use of futures and options. The System's hedging activities are primarily limited to natural gas futures and options. The System'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 the System.

***Coal*** – The System currently owns a fleet of 111 aluminum rapid-discharge rail cars that are in continuous operation between the DGS and the coal supply regions. Coal inventory at the Deerhaven Generating Station (DGS) is 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 considers both short-term and 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. The strategy also retains opportunities for cost savings through spot purchases, the ability to evaluate new coal sources through test burns, or to take advantage of a producer's excess coal production capacity. Typically, the System maintains 70-75% of its coal supply under one to three year term contracts and the remainder under short-term contracts of one year or less. The System does not currently have an active contract for the supply of coal. The System does currently have a long-term transportation contract for coal with CSX Transportation that expires in 2019. A consultant that specializes in fuel transportation and logistics has been retained to explore additional transport options and finalize the rail renegotiation strategy. Effective October 2014, the City Commission instituted a policy prohibiting the procurement of coal from mountain top removal (MTR) sources unless a 5% savings over deep mined coal is achieved by doing so, which policy has not had a material impact on the System to date.

See also "Ratings Triggers and Other Factors That Could Affect the System's Liquidity, Results of Operations or Financial Condition - Coal Supply Agreements" herein.

***Natural Gas*** – Natural gas supply for both the electric system and the natural gas distribution system is transported to the System by Florida Gas Transmission (FGT) under long-term contracts for daily firm pipeline transport capacity. The contracts are priced under transportation tariffs filed with the Federal Energy Regulatory Commission (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 fiscal year 2016, the System consumed 11,346,889 million British thermal units (MMBtu) of natural gas in electric generation and 2,060,554 MMBtu for the gas distribution system. The average cost of gas delivered to the System was $3.14/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 the 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*** – At current and projected price levels, the System's oil capable units are not projected to operate on fuel oil except in emergency backup modes. For fiscal year 2016, fuel oil accounted for approximately 0.01% 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.

**Transmission System, Interconnections and Interchange Agreements**

The System's transmission system infrastructure consists of approximately 117.2 circuit miles operated at 138 kV and 2.5 circuit miles operated at 230 kV. There are four interconnections with the Florida transmission grid thereby connecting the System to Duke to the west and south as well as FPL to the east. Specifically, there are three (3) interconnections with Duke: one at their Archer Substation at 230 kV and two at their Idylwild Substation at 138 kV. There is also one interconnection to FPL's Hampton Substation at 138kV. The Hague transmission switching station was constructed to serve as the interconnection point to GREC. The transmission system has ample interconnection capacity to import sufficient power from the State grid system to serve native load under normal circumstances.

The System's 138 kV transmission system encircles its service area and connects three transmission switching stations, six loop-fed distribution substations, and four radial-fed distribution substations. This configuration provides a high degree of reliability to serve the System's retail load, delivering wholesale power to Alachua and providing transmission service to a portion of Clay's service territory.

The System is a member of the Florida Reliability Coordinating Council (FRCC), which is a not-for-profit company incorporated in the State of Florida. The purpose of the FRCC is to ensure and enhance the reliability and adequacy of bulk electricity supply in 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.

FRCC serves as a regional entity with delegated authority from the North American Electric Reliability Corporation (NERC) for the purposes of proposing and enforcing reliability standards within the FRCC Region. The area of the State of Florida that is within the FRCC Region is peninsular Florida east of the Apalachicola River, which area is under the direction of the FRCC Reliability Coordinator.

**Electrical Distribution**

All of the System's distribution substations are served from the 138 kV transmission system. The System is a 12.47 kV distribution system. If the transmission line supplying a radial-fed distribution substation should fault, the retail loads affected can be served by remote and field actuated switching to adjacent and unaffected distribution circuits. Additional substations have been planned near and within the northern and eastern quadrants of the System's service area to serve load growth in those areas and improve system reliability and resiliency.

The transmission and distribution facilities are fully modeled in a geographical information system (GIS). The GIS is integrated with the System's outage management system to enable the linkage of customer calls to specific devices. This integration promotes enhanced and expedited service restoration. Integrated software systems are also used extensively to assign loads to specific circuits, planning distribution and substation system improvements, and supporting restoration efforts resulting from extreme weather. In addition, greater than 60% of the distribution system's circuit miles are underground, which is among the highest percentages in Florida.

**Capital Improvement Program**

The System's current six-year electric capital improvement program requires approximately $188.5 million in capital expenditures between fiscal years ended September 30, 2017 through and including 2022. A breakdown of the categories included in the six-year capital improvement program is outlined below and reflects the approved program from the fiscal year 2017 budget process. The South Energy Center expansion at Shands is included in the 2017 budget and is anticipated to cost approximately $30 million in capital through completion in 2018.

**Electric Capital Improvement Program**

| | Fiscal Years ended September 30, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total |
| | | | (dollars in thousands) | | | | |
| Generation and Control | $ 18,975[1] | $ 14,570 | $ 7,675 | $ 5,625 | $ 4,275 | $ 2,175 | $53,295 |
| Transmission and Distribution | 9,874 | 17,286 | 16,981 | 12,211 | 8,428 | 9,760 | 74,540 |
| Miscellaneous and Contingency | 12,695 | 11,496 | 10,022 | 8,554 | 8,801 | 9,055 | 60,623 |
| Total | $ 41,544 | $ 43,352 | $ 34,678 | $ 26,390 | $ 21,504 | $ 20,990 | $188,458 |

(1) Includes $5.2 million of projected expense for environmental control equipment replacement with upgrades at Deerhaven.

**Loads and Resources**

A summary of the System's generating resources and firm interchange sales 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 | | | | | |
| 2012 | 667 | 0 | 415 | 252 | 61 |
| 2013 | 657 | 0 | 416 | 241 | 58 |
| 2014 | 645 | 0 | 409 | 236 | 58 |
| 2015 | 645 | 0 | 421 | 228 | 56 |
| 2016 | 645 | 0 | 428 | 223 | 54 |
| Projected | | | | | |
| 2017 | 645 | 0 | 437 | 227 | 52 |
| 2018 | 645 | 0 | 444 | 222 | 50 |
| 2019 | 645 | 0 | 438 | 215 | 49 |
| 2020 | 645 | 0 | 441 | 216 | 49 |

(1) Based upon summer ratings. A purchase of 50 MW of firm baseload capacity ended December 31, 2013. Imported firm capacity has been adjusted for losses in the table above. Additional resources include 4 MW per year solar beginning in 2009, and continuing through 2013, with a coincident capacity factor of 35%, and 3.8 MW from the Baseline Landfill. No additional FIT solar capacity was added after 2013. 10MW of FIT solar capacity are represented in the table above but are not included in the existing generating facilities. The GREC biomass plant became commercially operational on December 17, 2013 and 102.5 MW are included in projected values.

(2) Summer peak forecast historically incorporated the System's aggressive conservation and DSM plan. In 2014, conservation planning was reduced significantly, which lessened the impact on peak loads. The plan continues to include conservation incentive retail rates and distributed renewable resources as with fewer incentive and information programs related to appliance and end use efficiency. The summer peak forecast presented here also includes Alachua all-requirements wholesale contract which is 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 six 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, and MEAG Power. 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 coal assuming a heat rate of 11,000 BTU/kWh and an indexed price for gas assuming a

heat rate of 9,250 BTU/kWh. The System has designated 100 MW of the capacity of DH 2 and 100 MW of the capacity at JRK Station to be covered under the agreement. This agreement has been amended and restated over time. The current agreement is set to renew for an additional 5-year term beginning October 1, 2017. The System has provided aid under this agreement, but has never requested aid pursuant to this agreement.

**Future Power Supply**

*General*

While the System's existing generating units can maintain a 15% reserve margin through at least 2022, if all generating units are available, the reserve margin can fall from 40+% to a generation deficit with the loss of the System's largest unit, DH 2. As such, power supply planning must address this first contingency event. The reliability of the System's generating sources and the availability of purchased power have been such that the System has never had to declare a generation deficiency. The next scheduled retirement of a generating facility is DH 1 in 2022. 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 hedged with a renewable 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 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. No state or federal legislation is pending or proposed at this time for retail competition in Florida. The purpose of the planning process is to develop a plan to best meet the System's obligation to the reliability and security of the bulk electric system (BES) of the State of Florida and best serve the needs of the System's customers, the most significant of which being competitive pricing of services. The System's current coal transportation contract expires December 31, 2019. Although negotiation strategies and additional options are being explored, the as-delivered cost of coal is anticipated to significantly increase. Compliance with some elements of the EPA Clean Power Plan may also impact future power supply planning regarding the System (see "Climate Change" below). The year 2020 characterizes a time frame and does not limit considerations of future events.

At last review, the Power 2020 plan raised questions that go beyond the current options being considered. As a result, TEA was chosen to create an Integrated Resource Plan (IRP) to help model a better answer to some of the unknowns going forward. Using modeling algorithms, the IRP will take a look at the aspects of the system requirements and provide recommendations for the best path forward. That path may include, amongst other strategies, additional generation, import capability, and demand side management, to accomplish the needs of the System. Delivery of the final report and recommendations is expected by July 2017.

In the fall of 2016, GRU applied for a Point-to-Point Transmission Service Request ("TSR") with Duke Energy Florida ("DEF") and Florida Power & Light ("FPL") with the intent of obtaining worst-case costs and facility upgrades necessary to provide GRU with 340MW of firm power service form either provider. The amount of 340MW was chosen as the "upper envelope" of import power needs in the event GRU retires all native generation with the exception of GREC. Based on the study results, DEF concluded that extensive projects work must be completed in the 10 year planning horizon and provided a non-binding estimate of $400 million to mitigate impacts on the DEF system. FPL, based on its own TSR results, provided a non-binding estimate of $75.5 million for its own required system upgrades and identified multiple third party impacts, confirming DEF's findings. Should GRU pursue large firm power purchases, third party impacts shall be reassessed in a coordinated study with the FRCC TWG.

*Solar FIT*

The System became the first utility in the nation to adopt a European-style solar FIT in March 2009. The System purchases 100% of the electricity produced by a photovoltaic (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 provides a twenty-year fixed price purchase power agreement); and (c) there are distinctions between different types of projects in terms of the price paid (in the case of the System, there are different rates for building/pavement mount and green field ground mount systems). FIT can be applied to any form of renewable energy, but the System chose to focus on solar. The System acquires all the environmental attributes of the solar energy purchased under the FIT, such as renewable energy credits and carbon offsets. The System stopped accepting new installations after 2013; However, approximately 23.3 MW of solar PV capacity was installed and continues to supply energy to the System.

*Solar Net Metering*

Net metering systems generally consist of solar panels, or other renewable energy generators, connected to a public utility power grid. The surplus power produced is transferred to the grid, allowing customers to offset the cost of power drawn from the utility. The net meter system includes both residential and commercial customers. To date, approximately 2.9 MW of solar PV capacity have been installed.

## THE WATER SYSTEM

The water system currently includes 1,146 miles of water transmission and distribution lines throughout the Gainesville urban area, 16 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 System renewed its consumptive use permit (CUP) in September 2014 which will expire on September 10, 2034. 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 or redevelopment of areas with higher density development. The area presently served includes approximately 118 square miles and approximately 75% of the County's total population. The University of Florida and a small residential development in Alachua are the only wholesale water sales customers.

**Customers**

The System has experienced average customer growth of 0.8% per year over the last five years. The System has extension policies and connection fees for providing water supply services to new developments 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, 2012 through and including 2016.

| | Fiscal Years ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 |
| Customers (Average) | 69,329 | 69,847 | 70,300 | 70,903 | 71,546 |

Most of the System's individual water customers are residential. Commercial and industrial customers comprised approximately 8.7% of the 71,546 average customers in the fiscal year ended September 30, 2016, and 62% of all water sales revenues were from residential customers.

**Water Treatment and Supply**

The System'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 2034. 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 two additional filter cells to provide additional treatment capacity. The System has been upgrading plant components that are outdated or at or near the end of the operating lives in order to ensure the reliability and longevity of the plant. One such upgrade is replacing the electrical system at the water plant. This project will replace the original large electrical equipment, generator, conductors, and construct a new electrical building at the plant. The original equipment which was installed in 1974 has reached the end of its serviceable life and requires replacement to ensure the

continued reliable operation of the Murphree Plant. The cost of the project is approximately $11 million and is included in the System's 6 year capital budget.

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 the SRWMD have adopted a 20-year water supply plan through 2035. 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. One of the regulatory constraints used by the water management districts and the Florida Department of Environmental Protection (FDEP) to protect water bodies is the "minimum flows and levels" (MFL) program. The water management districts and the FDEP have developed and are continuing to develop MFL for individual springs, lakes and rivers to ensure that they are not adversely impacted by groundwater withdrawals. The water management districts are developing refined groundwater models to better define and evaluate potential constraints for both water supply planning and the MFL program. The System is participating in both the model development and MFL development efforts. The System is required to comply with existing and future MFLs and with water supply plans which may result in increased costs to the System. The System will comply with its consumptive use permit and meet the System's future water supply needs primarily through a combination of increased water conservation efforts and an increased use of reclaimed water.

The Cabot/Koppers Superfund site is located approximately 2 miles to the southwest of the Murphree Plant. The site includes two properties: The Cabot Carbon area, covering 50 acres on the eastern side of the site and The Koppers area, covering 90 acres on the western side of the site. The Cabot property was used primarily for producing charcoal and pine products. The Koppers property was used for wood treating. Both production facilities are owned by corporations unrelated to the System.

The EPA placed the site on the National Priorities List under the Superfund program in 1984 because of contaminated soil and groundwater resulting from facility operations. The EPA then issued a Record of Decision (ROD) for the site in 1990 which described the plan for cleaning up the site. Actions were taken in the 1990s to contain and partially remove contamination at the site. The presence of protective geologic confining layers over the aquifer has greatly impeded the migration of contamination. However, additional investigations of the site since 2001, conducted at the urging of the System, the County and members of the community, have indicated that additional measures are needed to contain the contamination and clean up the site to ensure that the 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 second ROD which described additional cleanup actions needed at the site. The ROD includes a multiple barrier approach for containing contamination at the Koppers portion of the site: (1) areas containing creosote will be treated with two different in situ treatment technologies to immobilize the creosote; (2) a slurry wall will be constructed around the most contaminated areas; and (3) contaminated groundwater from the Floridan aquifer below the site is being pumped and treated. The EPA and Beazer East, Inc., the PRP for the Koppers portion of the site, have entered into a consent decree which requires the PRP to implement the remediation described in the ROD. The consent decree has been approved by the federal district court. The consent decree has not had a material adverse effect on the System or its financial condition. Beazer is currently implementing the cleanup plan per the ROD and it is anticipated that the cleanup of the Koppers portion of the site will be completed by 2021. The System and its expert consultants are continuing to be highly engaged in the design and implementation of the cleanup site.

Additional cleanup measures will also be implemented for the Cabot portion of the site. These measures will include construction of subsurface slurry walls around contaminated areas and may include additional soil removal. It is anticipated that remediation of this site will also be completed by 2021.

The System performs routine monitoring of drinking water quality at the Murphree Plant and in the water distribution system in accordance with the EPA and state regulations including EPA Lead and Copper Rule. The System has been in compliance with the Lead and Copper Rule since its inception 26 years ago. The drinking water supply does not contain lead. Also, since the drinking water supply comes from a limestone aquifer, the water is naturally non-corrosive which protects against lead leaching into the water from plumbing fixtures.

**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**

The System's current six-year water capital improvement program requires approximately $65.6 million in capital expenditures for the fiscal years of September 30, 2017 through and including 2022. A breakdown of the categories included in the six-year capital improvement program is outlined below and reflects the approved program from the fiscal year 2017 budget process.

**Water Capital Improvement Program**

| | Fiscal Years ended September 30, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total |
| | (dollars in thousands) | | | | | | |
| Plant Improvements | $6,585 | $7,845 | $3,365 | $2,445 | $500 | $2,345 | $23,085 |
| Transmission and Distribution | 3,599 | 3,230 | 3,715 | 3,765 | 4,215 | 8,115 | 26,639 |
| Miscellaneous and Contingency | 3,222 | 3,048 | 2,654 | 2,262 | 2,311 | 2,362 | 15,859 |
| Total | $13,406 | $14,123 | $9,734 | $8,472 | $7,026 | $12,822 | $65,583 |

## THE WASTEWATER SYSTEM

The wastewater system serves most of the Gainesville urban area and consists of 635 miles of gravity sewer collection system, 168 pump stations with 142 miles of associated force main, and two major wastewater treatment plants with a combined treatment capacity of 22.4 Mgd AADF.

All of the effluent from the plants is beneficially reused either for aquifer recharge through recharge wells or groundwater recharge systems, environmental restoration, irrigation, or industrial cooling. The System is continuing to expand 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 and connection fees for providing wastewater facilities and service to new customers are appropriately designed to protect existing customers from rate pressure that would result from adding new customers to the wastewater system. 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 or redevelopment of areas with higher density development. The System also provides wholesale wastewater service to the City of Waldo. The wastewater system does not serve the majority of the University of Florida campus.

**Customers**

The System has experienced customer growth of 0.9% per year over the last five years. The following tabulation shows the average number of wastewater customers, including reclaimed water customers, for the fiscal years ended September 30, 2012 through and including 2016.

| | Fiscal Years ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 |
| Customers (Average) | 62,536 | 63,001 | 63,501 | 64,121 | 64,781 |

The composition of the System's wastewater customers is predominantly residential. Commercial and industrial customers comprised approximately 6.7% of the 64,781 average customers in the fiscal year ended September 30, 2016, and residential customers were the source of 68% of all the wastewater system's revenues in the fiscal year ended September 30, 2016.

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 water reclamation facility could not meet required environmental permit limits. Waldo constructed a lift station and force main which collects Waldo's raw wastewater and discharges it to one of the System's existing lift stations. The facilities 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.

**Treatment**

The wastewater system currently includes two major wastewater treatment facilities, the Main Street Water Reclamation Facility (the MSWRF) and the Kanapaha Water Reclamation Facility (the KWRF). Currently, these facilities have a combined capacity of 22.4 Mgd AADF, which is sufficient capacity to meet projected demands through at least 2034. Although these facilities receive flow from adjacent but distinct collection areas, a pump station that allows wastewater to be routed to either the MSWRF or KWRF allows treatment capacity at both facilities to be fully utilized.

The MSWRF 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 include 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 MSWRF is discharged to the Sweetwater Branch and must meet requirements of the FDEP for discharge to Class III surface waters. The MSWRF is in compliance with its National Pollutant Discharge Elimination System (NPDES) permit. The MSWRF NPDES permit is a 5-year permit that expires March 18, 2020.

In addition, the MSWRF 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 Facilities – South Energy Center*" herein. This pipeline also provides reclaimed water for pond augmentation and irrigation at the Depot Park Project (MGP remediation site) (see "THE NATURAL GAS SYSTEM – Manufactured Gas Plant" herein) and at the System's Innovation Energy Center chilled water facility (see "MANAGEMENT'S DISCUSSION OF SYSTEM OPERATIONS – Competition" herein). The pipeline will also provide reclaimed water for other irrigation and cooling uses that develop near the pipeline corridor.

Under the FDEP Total Maximum Daily Load (TMDL) regulations, FDEP assesses the water quality in water bodies and sets requirements for reduction in pollutant sources. FDEP adopted a TMDL in January 2006 which requires reductions in total nitrogen discharges from the MSWRF 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. Subsequent to the adoption of this TMDL, the FDEP promulgated its Numeric Nutrient Criteria ("NNC") Rule effective September 17, 2014. The System will achieve its TMDL limits and comply with the NNC Rule 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 MSWRF effluent.

The MSWRF NPDES permit requires the Paynes Prairie Sheetflow Restoration project be fully operational and comply with TMDL requirements by April 2019. Construction of the project was completed in 2016 and is in the start-up phase of operation. It is expected to be fully compliant with all criteria, as required, by April 2019. In conjunction with the project, the System is currently working with the FDEP to establish site specific criteria for the Sweetwater Branch Creek in accordance with the NNC Rule. The System is following established procedures for developing site specific criteria. However, the System also has a backup plan in the unlikely event that it was not able to obtain site specific criteria. The backup plan would consist of the construction of an $8 million pipeline which would meet numeric nutrient criteria.

Another regulatory change that the System has responded to the reuse of biosolids generated from the wastewater treatment process. Prior to 2016, the System beneficially reused its biosolids through Class B land application in accordance with FDEP and EPA requirements. However, changes in local land use ordinances made it necessary to transition to a new program that includes biosolids dewatering and use of a contractor that will process the biosolids to produce a fertilizer product. The System has completed construction on the dewatering facilities and other plant improvements to facilitate dewatering at a cost of $17 million and is currently in full operation. In addition, enhanced screening facilities at the KWRF were replaced to reduce solids entering the plant and thereby reducing wear and tear on the new dewatering equipment.

The KWRF 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 KWRF 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 processes conclude with filtration and disinfection prior to discharge into aquifer recharge wells and a reclaimed water distribution system. The disinfection system was recently modified to meet more stringent regulatory limits. 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 MSWRF East Train rehabilitation project is scheduled to be completed in or before fiscal year 2021 at an estimated cost of $3.3 million, and is part of the six-year capital improvements program. The east train is the oldest treatment train at the MSWRF, originally installed in the 1960's. The mechanical components in the east train have signs of deterioration and the aerators are nearly 40 years old. This rehabilitation project will replace the clarifier mechanism, electrical gears, control panels, PLC, aerators and rehabilitate the concrete basin structure.

The Southwest Reuse Project distributes reclaimed water from the KWRF 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 through deep recharge wells that discharge to a depth of 1,000 feet.

In the fiscal years ended September 30, 2016 and 2015, the System delivered approximately 2.9 Mgd AADF and 2.3 Mgd AADF, respectively, of reclaimed water. The regional water management districts encourage the use of reclaimed water to reduce demands on groundwater. The FDEP encourages reuse as an environmentally appropriate means of effluent disposal.

**Wastewater Collection**

The wastewater gravity collection system consists of 15,309 manholes with 635 miles of gravity sewer, 50% of which consists of vitrified clay pipe. New facilities are primarily constructed of PVC high density polyethylene (HDPE) 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 specifications of the System 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 168 pump stations and over 142 miles of pipe. Existing lines less than 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 or HDPE. The System has instituted a preventative maintenance program to assure long life and efficiency at all pumping stations.

**Capital Improvement Program**

The System's current six-year wastewater capital improvement program requires approximately $95.2 million in capital expenditures for the fiscal years of September 30, 2017 through and including 2022. A breakdown of the categories included in the six-year capital improvement program is outlined below and reflects the approved program from the fiscal year 2017 budget process.

**Wastewater Capital Improvement Program**

| | Fiscal Years ended September 30, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total |
| | (dollars in thousands) | | | | | | |
| Plant Improvements | $3,895 | $7,195 | $5,500 | $2,955 | $2,600 | $7,225 | $29,370 |
| Reclaimed Water | 705 | 660 | 535 | 235 | 195 | 1,405 | 3,735 |
| Collection System | 7,633 | 4,794 | 6,184 | 7,399 | 9,074 | 8,599 | 43,683 |
| Miscellaneous and Contingency | 3,527 | 3,558 | 3,113 | 2,670 | 2,733 | 2,795 | 18,399 |
| Total | $15,760 | $16,207 | $15,332 | $13,259 | $14,602 | $20,027 | $95,187 |

## 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.

### Service Area

The natural gas system services customers within the City limits and in the surrounding unincorporated area. The natural gas system covers approximately 115 square miles and provides service to 30% of the County's population. In addition, the natural gas system serves customers within the city limits of Alachua and High Springs. The franchise agreement with Alachua expired on November 10, 2007. The parties are continuing to operate under the terms of the franchise agreement, and the City anticipates addressing this agreement in the near future. The terms and conditions of the expired franchise remain in effect and negotiations for an extended franchise are in process. Service has continued uninterrupted and the customer base continues to expand in that community. Service provided to Alachua represents approximately 6% of total retail gas sales of the System. The System has also entered into franchise agreements to provide natural gas to the City of Archer ("Archer") and Hawthorne and has ongoing negotiations to receive a franchise agreement in Newberry. To date, there are no budgeted funds or anticipated timelines for capital infrastructure developments into Archer or Hawthorne.

### Customers

The following tabulation shows the average number of natural gas customers for the fiscal years ended September 30, 2012 through and including 2016. 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, | | | | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 |
| Customers (Average) | 33,264 | 33,465 | 33,780 | 34,152 | 34,496 |

The composition of the System's natural gas customers is predominantly residential. Commercial and industrial customers comprised approximately 4.7% of the 34,496 average customers served in the fiscal year ended September 30, 2016, while approximately 95.3% were residential customers.

### Natural Gas Supply

Natural gas is procured and delivered in much the same manner as the System's electric generation operations. TEA purchases the commodity, optimizes 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, 2016 was $3.33/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 775 miles of gas distribution mains. The predominant and standard pipe materials in service are polyethylene (580 miles) and coated steel (187 miles). All coated steel pipelines are cathodically protected using magnesium anodes. The distribution system is comprised of 6.2 miles of uncoated steel and black plastic. The replacement of all three of these pipeline materials has been programmed within the immediate planning/construction horizon and will be completed by the end of fiscal year 2018.

**Manufactured Gas Plant**

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

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

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

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

**Capital Improvement Program**

The System's current six-year natural gas capital improvement program requires approximately $26.8 million in capital expenditures during the fiscal years ended September 30, 2017 through and including 2022. A breakdown of the categories included in the six-year capital improvement program is outlined below and reflects the approved program from the fiscal year 2017 budget process.

**Gas Capital Improvement Program**

| | Fiscal Years ended September 30, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total |
| Distribution Mains | $1,000 | $1,374 | $1,088 | $1,286 | $1,057 | $1,326 | $7,131 |
| Meters, Services and Regulators | 1,226 | 1,357 | 1,653 | 1,295 | 1,670 | 1,362 | 8,563 |
| Miscellaneous and Contingency | 2,102 | 1,957 | 1,820 | 1,684 | 1,734 | 1,785 | 11,082 |
| Total | $4,328 | $4,688 | $4,561 | $4,265 | $4,461 | $4,473 | $26,776 |

**GRUCOM**

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 and 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. The system, through interlocal agreements, also provides public safety radio services across the entire County.

**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 10 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. GRUCom also uses the fiber optic network to provide multiple classes of Internet access services. Business Internet and Dedicated Internet Access (DIA) class service connections are offered at access speeds ranging from 10 Mbps up to 10 Gbps. High speed residential Internet access is offered in participating multi-dwelling communities at speeds up to 1 Gbps under the brand name GATOR NET. In 2017, GRUCom has upgraded our GATORNET services to deliver Symmetrical bandwidth, a first in the Gainesville area. Additionally, GRUCom offers dial-up Internet access services under the brand name GRU.Net. The dial-up access speeds available are 56 kilobits per second (Kbps). Additionally, between now and September 30, 2018 GRUCom will be replacing legacy telecommunications equipment with the latest technology equipment to provide enhanced telecommunication services.

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 transmitter 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, UF Health and the University of Florida Health Science Center. As of September 30, 2016, GRUCom had a total of 498 transport circuits in service.

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, 2016, GRUCom had 6,472 Internet access customer connections, while dial-up customers totaled 152. GRUCom tower space leasing services are used primarily by wireless providers, which include cellular telephone and PCS companies. As of September 30, 2016, GRUCom executed 32 tower leases, for space on eleven of its thirteen antenna attachment sites with eight 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, the Gainesville Fire Rescue Department, the Gainesville Regional Transit System, the City's Public Works Department, the University of Florida Police Department, the Santa Fe College Police Department, the City of Alachua Police Department, 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. These users have entered into a service agreement which is valid 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 2,628 subscriber units in service. Negotiations are underway with the current Radio System Users to provide for upgrading the radio system with technology that will provide for user needs well into the next decade, ongoing negotiations for a system upgrade to the public safety radio system may lead to some capital investment to the system in late 2017 or early 2018.

GRUCom Projected Revenue and Customer Count
Does not include projections for products and services under development

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| Data & Internet Services | $7,627,602 | $7,862,920 | $8,177,742 | $8,564,151 | $9,018,635 | $9,541,056 |
| Wireless Services | 1,781,119 | 1,870,524 | 1,957,246 | 2,047,721 | 2,142,141 | 2,240,708 |
| Tower Leasing Services | 1,688,047 | 1,713,367 | 1,739,068 | 1,765,154 | 1,791,631 | 1,818,506 |
| Other Revenue From Customers | 179,345 | 182,931 | 186,590 | 190,322 | 194,128 | 198,011 |
| Total Revenue from Customers | $11,276,112 | $11,629,743 | $12,060,645 | $12,567,347 | $13,146,536 | $13,798,281 |
| Projected Business Customer Count | 248 | 267 | 286 | 302 | 317 | 333 |
| Projected Residential Retail Internet Customer Count | 82[1] | 24 | 24 | 24 | 24 | 24 |

[1] 2017 is the last year GRUCom is projecting to have any dial-up customers.

**Description of Facilities**

As of September 30, 2016, GRUCom had 512.5 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 services requiring transmission through Synchronous Optical Network standard protocol, GRUCom has deployed equipment manufactured by Ciena (primarily); and for services requiring transmission through Ethernet standard protocol, GRUCom uses equipment manufactured by Cisco and Telco System. GRUCom is in the process of retiring the Cisco Systems equipment and migrating all Ethernet to the Telco System's transmission platform. The Telco Systems equipment will enable GRUCom to provide multi-protocol line switching 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 has begun the process of migrating to the P25 protocol.

GRUCom maintains a point-of-presence at the Telx Group, Inc. collocation and interconnection facility located in Atlanta, Georgia (the "Telx ATL1 data center"). The Telx ATL1 data center 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 ATL1 data center sits on top of most of the fiber. GRUCom maintains an ultra-high bandwidth backbone transmission interconnection on diverse routes between Gainesville and the ATL1 data center 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 ATL1 data center. 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, Netflix, Apple, McAfee Akami, Hurricane Electric (a major Internet service), Sprint, Level 3 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.

GRUCom maintains a second point-of-presence at the NAP of the Americas (NOTA) collocation and interconnection facility which is located in Miami, Florida. NOTA is one of the most significant telecommunications projects in the world. The Tier-IV facility was the first purpose-built, carrier-neutral Network Access Point (NAP) and is the only facility of its kind specifically designed to link Latin America with the rest of the world. NOTA is located in downtown Miami in close proximity to numerous other telecommunications carrier facilities, fiber loops, international cable landings and multiple power grids. More than 160 global carriers exchange data at NOTA including seven Tier-1 world-wide Internet service providers. GRUCom maintains an ultra-high bandwidth backbone transmission interconnection between Gainesville and NOTA, separate from the ATL1 data center interconnection circuits, which allows GRUCom to maintain a second, fully diverse data gateway and exchange to further enhance the reliability of the Internet services provided to customers in Gainesville. In Miami, GRUCom is also connected to the FL-IX Peering facility to provide additional and duplicate peering points with various Internet Service Providers (ISPs) including Content Providers, Gaming Providers and enterprises similar to the YIE connection in Atlanta.

GRUCom is developing a third point-of-presence in Jacksonville,. Currently, GRUCom has dual 10G circuits and a 1G circuit for several customers. This point-of-presence will be expanded to mirror our others as service demand expands. Further negotiations are underway to expand the P 25 system to provide for user needs well into the next decade.

**Capital Improvement Program**

The System's current six-year GRUCom capital improvement program requires approximately $17.3 million in capital expenditures for years ended September 30, 2017 through and including 2022. A breakdown of the categories included in the six-year capital improvement program is outlined below and reflects the approved program from the fiscal year 2017 budget process.

**GRUCom Capital Improvement Program**

| | Fiscal Years ended September 30, | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** | 2021 | **2022** | **Total** |
| | (dollars in thousands) | | | | | | |
| Fiber Optic Expansion | $2,434 | $2,286 | $1,840 | $1,895 | $1,952 | $2,011 | $11,918 |
| Special Project | 385 | 330 | 165 | - | - | - | 880 |
| General Plant | 117 | 81 | 83 | 86 | 89 | 91 | 547 |
| Miscellaneous and Contingency | 613 | 630 | 648 | 666 | 684 | 704 | 3,945 |
| Total | $3,549 | $3,327 | $2,736 | $2,647 | $2,725 | $2,806 | $17,290 |

## RATES

**General**

In general, the rates of municipal electric utilities in Florida are established by the governing bodies of such utilities. 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. 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 and takes into account recommendations of the Utilities Advisory Board regarding proposed changes in fees, rates, or charges for utility services. See "Utilities Advisory Board" above and "SECURITY FOR THE 2008 SERIES B BONDS – Rate Covenants in the forepart of this Reoffering Memorandum. Future projected revenue requirement changes provided in this Reoffering Memorandum have been developed by the System's staff based on the most recent forecasts and operation projections available. 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 also has the authority to determine the need for certain new transmission and generation facilities.

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

**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 calculation, from the second month preceding the billing month, based on actual fuel costs valued on a weighted average 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 2012 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.

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**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)[2] | Total Bill Increase/(Decrease)[3] |
|---|---|---|---|
| Historical (Fiscal Year Beginning): | | | |
| October 1, 2012 | 0.00 | (4.70) | (2.20) |
| October 1, 2013 | (5.60) | 37.20 | 11.10 |
| October 1, 2014 | (8.50) | 17.00 | 2.80 |
| October 1, 2015 | 0.00 | (6.70) | (4.30)[3] |
| October 1, 2016 | 0.00 | (3.70) | (2.00) |
| Projected (Fiscal Year Beginning):[4] | | | |
| October 1, 2017 | 2.00 | 0.00 | 1.00 |
| October 1, 2018 | 2.00 | 0.00 | 1.00 |
| October 1, 2019 | 3.00 | 0.00 | 1.20 |
| October 1, 2020 | 3.00 | 0.00 | 1.20 |
| October 1, 2021 | 3.00 | 0.00 | 1.20 |

(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) Historical fuel revenue increase represents the change in weighted average retail fuel adjustment.

(3) Historical bill increase represents the change in system average delivered residential price. Projections are based on change in monthly bill at 1,000 kwh.

(4) 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.

The electric and natural gas systems use amounts on deposit in a reserve known as the "fuel adjustment levelization balance" that the System accumulates. The balance of the reserve at fiscal year-end, September 30, 2016, was approximately $12 million for both electric and natural gas combined. The balance of this fund is anticipated to carry a balance of approximately 5% of the annual fuel expense budget on an average year.

In 2014, the City Commission approved the addition of an Economic Development Rate for new and existing general service demand and large power commercial electric customers of the System in an effort to attract large, regionally competitive new commercial customers and incentivize local growth.

Approval of the applicable changes to the City of Gainesville Code of Ordinances occurred in November 2014. The Economic Development rate allows for a 5-year, 20% discount to the base rate portion of the electric bill of a new customer who adds a load of at least 100,000 kWh per month or a 15% discount to the base rate portion of the electric bill of an existing customer who increases its baseline usage by a minimum of 20%. There is no discount on the fuel adjustment portion of the bill under this program, but the addition of load will distribute the fixed costs of the PPA with GREC LLC across a greater number of kWh, lowering the fuel adjustment for all customers. This program is base revenue neutral during the five year discount period, with additional base revenues after the discount ends. The System does not have any customers currently participating in this program.

Public streets in Gainesville and in portions of 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 such portions of the unincorporated areas served by the System.

*Rates and Charges for Electric Service*

The electric rates, effective October 1, 2016, are provided below by class of service. Though the rates are functionally unbundled, they are commonly presented in a bundled format.

**Residential Standard Rate**

| | |
|---|---|
| Customer charge, per month | $14.25 |
| First 850 kWh, Total charge per kWh | $0.043 |
| All kWh per month over 850, Total charge per kWh | $0.064 |

**Non-Residential General Service Non-Demand Rates**

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

| | |
|---|---|
| Customer charge, per month | $29.50 |
| First 1,500 kWh per month, Total charge per kWh | $0.069 |
| All kWh per month over 1,500, Total charge per kWh | $0.100 |

**Non-Residential General Service Demand Rates**

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

| | |
|---|---|
| Customer charge, per month | $100.00 |
| Total Demand charge, per kW | $8.50 |
| Total Energy charge, per kWh | $0.040 |

**Non-Residential Large Power Rates**

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

| | |
|---|---|
| Customer charge, per month | $350.00 |
| Total Demand charge, per kW | $8.50 |
| Total Energy charge, per kWh | $0.036 |

Customers in all classes are charged a fuel and purchased power adjustment. Chapter 203, Florida Statutes, imposes a tax at the rate of 2.5% on the gross receipts received by a distribution company for utility services that it delivers to retail consumers in the state of Florida and requires that the distribution company report and remit its Florida Gross Receipts tax to the Florida Department of Revenue on a monthly basis. All non-exempt customers residing within the City's corporate limits pay a municipal public service 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 6.95% 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 codified rate ordinances include clauses providing for primary service metering discounts and facilities leasing adjustment.

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*Comparison with Other Utilities*

The table below shows the average monthly bills for electric service for certain selected Florida electric utilities, including the System. The System's average annual use per residential customer was 9,747 kWh in the fiscal year ended September 30, 2016.

**Comparison of Monthly Electric Bills[(1)]**

| | | General Service | | |
|---|---|---|---|---|
| | Residential | Non-Demand | Demand | Large Power |
| | 1,000 kWh | 1,500 kWh | 30,000 kWh | 430,000 kWh |
| | | | 75 kW | 1,000 kW |
| **Gainesville Regional Utilities** | **$130.40** | **$238.00** | **$4,037.50** | **$53,803.40** |
| Kissimmee Utility Authority | $ 95.69 | $156.15 | $2,638.39 | $36,086.42 |
| Orlando Utilities Commission | $106.00 | $165.22 | $2,574.60 | $35,172.40 |
| Lakeland Electric | $ 97.27 | $141.99 | $2,315.99 | $32,012.45 |
| Tampa Electric Company | $108.18 | $169.63 | $2,605.79 | $35,686.07 |
| City of Tallahassee | $108.88 | $141.54 | $2,675.65 | $36,389.20 |
| JEA | $108.50 | $155.64 | $2,715.10 | $37,886.50 |
| Ft. Pierce Utilities Authority | $115.84 | $182.93 | 3,140.85 | $46,937.20 |
| Ocala Electric Authority | $112.6 | $166.86 | $2,860.31 | $41,107.43 |
| Clay Electric Cooperative, Inc. | $109.90 | $168.05 | $2,728.25 | $35,806.00 |
| City of Vero Beach | $116.08 | $181.11 | $3,222.05 | $45,444.30 |
| Duke (Energy Florida) | $121.17 | $185.39 | $2,812.75 | $39,329.77 |
| Florida Power & Light Company | $105.98 | $158.79 | $2,578.45 | $35,882.27 |
| Gulf Power Company | $135.83 | $196.26 | $2,951.81 | $41,552.85 |

(1) Rates in effect for April 2017 applied to noted billing units, ranked by residential bills. Includes 6% franchise fees for investor-owned utilities FPL, Gulf Power Company, TECO and Duke. Excludes public utility taxes, sales taxes and surcharges.

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.

**Water and Wastewater System**

Since the start of the fiscal year ended September 30, 2013, the table below presents water system base rate revenue and total bill changes since 2013 and Management's most recent projections of future revenue requirements and total bill changes. The percentage increases shown represent the aggregate amount required to fund increases in projected revenue requirements for the water system.

**Water System**
**Revenue Requirement and Total Bill Changes**

| | Percentage Revenue Requirement Increase[1] | Total Bill Increase[2] |
|---|---|---|
| Historical | | |
| October 1, 2012 | 3.50% | 3.30% |
| October 1, 2013 | 3.85 | 5.50 |
| October 1, 2014 | 3.75 | 6.30 |
| October 1, 2015 | 3.75 | 5.80 |
| October 1, 2016 | 3.00 | 2.50 |
| Projected[3] | | |
| October 1, 2017 | 3.00 | 3.00 |
| October 1, 2018 | 3.00 | 3.00 |
| October 1, 2019 | 3.00 | 3.00 |
| October 1, 2020 | 5.00 | 5.00 |
| October 1, 2021 | 5.00 | 5.00 |

(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) Historical bill increase represents the change in system average delivered residential price. Projections are based on monthly bill at 6 Kgal.

(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.

The table below presents wastewater system base rate revenue and total bill changes since fiscal year 2013 and Management's most recent projections of future revenue requirement and total bill changes. The percentage increases shown represent the aggregate amount required to fund increases in projected revenue requirements for the wastewater system.

**Wastewater System**
**Revenue Requirement and Total Bill Changes**

| | Percentage Revenue Requirement Increase[1] | Total Bill Increase[2] |
|---|---|---|
| Historical | | |
| October 1, 2012 | 3.00% | 5.00% |
| October 1, 2013 | 2.40 | 2.00 |
| October 1, 2014 | 4.85 | 5.10 |
| October 1, 2015 | 4.85 | 3.70 |
| October 1, 2016 | 3.00 | 1.50 |
| Projected[3] | | |
| October 1, 2017 | 3.00 | 3.00 |
| October 1, 2018 | 3.00 | 3.00 |
| October 1, 2019 | 3.00 | 3.00 |
| October 1, 2020 | 4.00 | 4.00 |
| October 1, 2021 | 4.00 | 4.00 |

(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) Historical bill increase represents the change in system average delivered residential price. Projections are based on monthly bill at 5 Kgal.

(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 current schedule of fees, rates and charges, combined 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 the 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. As of October 1, 2015, the first tier pricing is applied to the first 4,000 gallons used, the second tier pricing is applied to gallons greater than 4,000 and equal to or less than 16,000, and the third tier pricing is applied to gallons greater than 16,000. A three block/tier billing structure has been in place since 2001. Over time the thresholds for quantities of water billed in each block has been lowered to current break points.

The City Commission adopted a new Multi-Family water rate as part of the fiscal year 2015 budget. The pricing for the rate is approaching that of the second tier of the three tier residential rate. The increase continued to be phased in during the fiscal year 2016 and fiscal year 2017 budget approval processes.

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 the City of Gainesville in the early 1900s. 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.

*Monthly Service Charges*

Monthly customer charges are levied for the actual units of service rendered to individual customers. Customers pay a rate per thousand gallons of water consumed or wastewater treated, and all customers pay a monthly customer charge, as shown on Table 1 below. 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. Table 2 below lists the charges for water and wastewater service that became effective October 1, 2016.

**Table 1. Monthly Water Customer Charge by Meter Size**

| Meter Size | Monthly Customer Charge |
|---|---|
| 5/8" and ¾" | $ 9.45 |
| 1" | 9.65 |
| 1.5" | 12.50 |
| 2" | 20.00 |
| 3" | 74.00 |
| 4" | 100.00 |
| 6" | 140.00 |
| 8" | 200.00 |
| 10" | 275.00 |

**Table 2. Current Monthly Charges For Water and Wastewater Services**

| | |
|---|---|
| Water Rates: | |
| Residential | |
| Customer Billing Charge | Based on meter size |
| Consumption Rate: | |
| 1,000 to 4,000 gallons | $2.45 per 1,000 gallons |
| 5,000 to 16,000 gallons | $3.75 per 1,000 gallons |
| 17,000 or more gallons | $6.00 per 1,000 gallons |
| Commercial | |
| Customer Billing Charge | Based on meter size |
| Consumption Rate | $3.85 per 1,000 gallons |
| University of Florida | |
| Customer Billing Charge | Based on meter size |
| Consumption Rate: | |
| On-campus facilities | $2.84 per 1,000 gallons |
| Off-campus facilities | $3.67 per 1,000 gallons |
| City of Alachua[1] | |
| Customer Billing Charge | Based on meter size |
| Consumption Rate | $1.62 per 1,000 gallons |
| Wastewater Rates: | |
| Residential and Commercial | |
| Customer Billing Charge | $9.10 per month |
| All Usage[2] | $6.30 per 1,000 gallons |

(1) The System provides wholesale water service to Alachua for resale to four locations.

(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 January 2017 are compared to those for thirteen other Florida cities (also based on rates in effect for January 2017) in the table below.

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

| | Water | Wastewater | Total |
|---|---|---|---|
| Winter Haven | $26.72 | $46.27 | $72.99 |
| Orange County | $16.26 | $41.94 | $58.20 |
| Ocala | $16.64 | $44.57 | $61.21 |
| Lakeland | $22.60 | $45.62 | $68.22 |
| Orlando | $13.71 | $50.37 | $64.08 |
| Tampa | $21.04 | $44.08 | $65.12 |
| Jacksonville | $23.37 | $46.33 | $69.70 |
| Pensacola (ECUA) | $28.18 | $49.86 | $78.04 |
| Tallahassee | $21.69 | $55.61 | $77.30 |
| St. Augustine | $35.35 | $45.95 | $81.30 |
| **Gainesville Regional Utilities** | **$30.50** | **$53.20** | **$83.70** |
| Ft. Pierce | $38.73 | $53.73 | $92.46 |
| Lake City | $34.84 | $63.12 | $97.96 |
| Daytona Beach | $47.17 | $74.02 | $121.19 |

(1) Comparisons are based on 7,000 gallons of metered water and 7,000 gallons of wastewater treated and rates in effect for April 2017. Excludes all taxes, surcharges, and franchise fees. Sorted in ascending order by total charges.

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

*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 were subject to the 25% surcharge imposed on non-exempt customers not residing within the City's corporate limits. This surcharge on connection fees was suspended for fiscal year 2015 and was re-implemented in fiscal year 2016.

*Connection Charge Methodology*

Beginning October 1, 2016 GRU made a change in its assessment of connection charges to more equitably distribute the costs of demand on the System to each customer based on their anticipated demand on the System. The change is intended to be revenue neutral for the System. New single family connections and small non-residential connections will continue to pay a Minimum Connection Charge, which is similar to how GRU currently charges for these small connections. Larger non-residential connections, with an estimated use greater than 280 gallons per day, will pay a flow-based connection

charge. Multi-family connections will continue to pay flow-based connection charges and are not affected by these changes.

Calculation of the estimated average water use for a non-residential customer is based on the total square footage of the business multiplied by the water use coefficient to obtain gallons per day. If the average water use is estimated to be 280 gpd or less the Minimum Connection Charge will be assessed. If the water use is estimated to be greater than 280 gpd the customer will pay a flow-based connection charge.

Effective October 1, 2016, transmission and distribution/collection system connection charges for individual lots are $433 to connect to the water system and $719 to connect to the wastewater system. Water and wastewater plant connection charges for individual lots are $646 and $3,216, respectively. The water meter installation charge is $677 for a typical single family dwelling (requiring 3/4 inch meter). The total water system connection charges for a typical single family dwelling (requiring 3/4 inch meter) are $1,756 for new water service and the total wastewater connection charges are $3,935 for new wastewater service. Total water and wastewater connection charges for a typical single family dwelling are $5,691. Also, there is a 25% surcharge applied to new connections located outside of the incorporated area of the City.

*Infrastructure Improvement Area*

The System's water and wastewater extension policy requires that new development projects pay the cost for the infrastructure improvements needed to serve them. Under this policy, developers typically design and install most of these improvements, with the System's review and approval, as part of the design and construction for their development projects. In some cases, the System may construct these improvements, with the developer reimbursing the System for the cost.

The City Commission, by adoption of Ordinance No. 110541 on April 7, 2016, established the "Innovation District Infrastructure Improvement Area." Within the designated area, the System developed a master plan for major water distribution and wastewater collection capacity improvements needed to facilitate current and anticipated future development. The System is constructing these improvements according to the master plan. The System has constructed $1.26 million in water system improvements and $1.02 million in wastewater collection system improvements as of the date of this Reoffering Memorandum. The cost for these improvements will be recovered through "infrastructure improvement area user fees" which new development projects pay at the time of connection to the System. These user fees are calculated for each development project based on the size of the project and type of project. The user fees are set based on recovering the System's expenditures with interest over a 20 year period. The City Commission enacted Ordinance No. 160725 on March 16, 2017 increasing the fees for the improvement area.

**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 second month preceding the billing months actual fuel costs.

The table below presents natural gas system base rate revenue, purchased gas adjustment revenue and total bill changes since 2012 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)[2] | Total Bill Increase/(Decrease)[3] |
|---|---|---|---|
| Historical | | | |
| October 1, 2012 | 0.00 | (24.30) | (13.00) |
| October 1, 2013 | 0.85 | 0.00 | (1.20) |
| October 1, 2014 | 4.25[4] | 4.10 | 4.30 |
| October 1, 2015 | 4.75 | (36.40) | (1.70) |
| October 1, 2016 | 9.00 | (13.10) | 2.10 |
| Projected[5] | | | |
| October 1, 2017 | 3.00 | 0.00 | 2.50 |
| October 1, 2018 | 3.00 | 0.00 | 2.50 |
| October 1, 2019 | 3.00 | 0.00 | 2.50 |
| October 1, 2020 | 5.00 | 0.00 | 4.20 |
| October 1, 2021 | 5.00 | 0.00 | 4.20 |

(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) Historical purchased gas adjustment revenue increase represents the change in weighted average purchased gas adjustment.

(3) Historical bill increase represents the change in system average delivered residential price Projections are based on change in monthly bill at 25 therms.

(4) 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, effective October 1, 2016, are provided below by class of service:

| | |
|---|---|
| Residential Service Rate | |
| Customer Charge | $9.75 per month |
| Non-Fuel Energy Charge | $0.63 per therm |
| Small Commercial Rate | |
| Customer Charge | $20.00 per month |
| Non-Fuel Energy Charge | $0.62 per therm |
| General Firm Service Rate | |
| Customer Charge | $45.00 per month |
| Non-Fuel Energy Charge | $0.44 per therm |
| Large Volume Interruptible Rate | |
| Customer Charge | $400.00 per month |
| Non-Fuel Energy Charge | $0.27 per therm |
| Manufactured Gas Plant Cost Recovery Factor (Applied to All Rate Classes) | $0.0556 per therm |

Customers in all classes are charged a purchased gas adjustment and the Manufactured Gas Plant Cost Recovery Factor. Chapter 203, Florida Statutes, imposes a 2.5% tax based on an index price applied to the quantity of gas billed. 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.

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*Comparison with Other Utilities*

The System's average natural gas charges in effect for the month of January 2017 are compared to those for eleven other municipal and private natural gas companies (also based on rates effective October 1, 2016) 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 | Large Volume 30,000 therms |
|---|---|---|---|
| **Gainesville Regional Utilities** | **$32.64** | **$262.68** | **$17,068.00** |
| Okaloosa Gas District | $34.09 | $275.16 | $19,086.69 |
| Tallahassee | $38.24 | $376.74 | $20,750.38 |
| City of Sunrise | $43.71 | $369.84 | $18,773.72 |
| Pensacola | $66.95 | $650.72 | $17,435.93 |
| Ft. Pierce | $47.33 | $334.72 | $23,989.19 |
| Central Florida Gas | $57.03 | $456.60 | $30,659.40 |
| Kissimmee[(2)] | $46.25 | $350.01 | $28,275.40 |
| Lakeland[(2)] | $46.25 | $350.01 | $28,275.40 |
| Orlando[(2)] | $46.25 | $350.01 | $28,275.40 |
| Tampa[(2)] | $46.25 | $350.01 | $28,275.40 |
| Clearwater | $46.75 | $436.00 | $32,950.00 |

(1) Rates in effect for April 2017 applied to noted billing volume (excludes all taxes).

(2) Service provided by People's Gas.

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.

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**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 2017, based upon (a) actual average annual usage by the System's residential customers by category of service during the fiscal year ended September 30, 2016 and (b) standard industry benchmarks for average annual usage by residential customers.

**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] |
|---|---|---|
| **Gainesville Regional Utilities** | **$189.54** | **$246.74** |
| Lakeland | $172.01 | $211.74 |
| Orlando | $174.84 | $216.33 |
| Tampa | $169.78 | $219.55 |
| Ocala | $182.18 | $220.06 |
| Jacksonville | $182.47 | $224.45 |
| Tallahassee | $178.05 | $224.43 |
| Clay County | $184.25 | $222.83 |
| Vero Beach | $186.72 | $230.66 |
| Kissimmee | $170.86 | $210.17 |
| Ft. Pierce | $200.37 | $255.63 |
| Pensacola | $216.52 | $280.82 |

(1) Based upon rates in effect for April 2017 by the actual providers of the specified services in the indicated locales, applied to the noted billing units. 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, 2016, as follows: for electric service: 812 kWh; for natural gas service: 18 therms; for water service: 5,000 gallons of metered water; and for wastewater service: 4,000 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.

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 of the applicable system unless otherwise published and (b) in the case of water and wastewater service, published rates and charges and/or personal contact with utility representatives.

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, 2016, 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 2013, 2014, 2015 and 2016. The information is derived from the audited financial statements of the City 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, 2013, 2014, 2015 and 2016, referenced in APPENDIX B attached hereto or in prior audited financial statements.

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| | Fiscal Years Ended September 30, (in thousands) | | | |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Revenues: | | | | |
| Electric | $249,410 | $280,482 | $298,914 | $308,070 |
| Water | 32,367 | 31,826 | 32,524 | 33,818 |
| Wastewater | 37,667 | 36,052 | 38,261 | 42,346 |
| Gas | 24,241 | 25,801 | 24,110 | 24,325 |
| GRUCom | 12,206 | 10,694 | 12,600 | 11,745 |
| Total Revenues | $355,891 | $384,855 | $406,409 | $420,304 |
| Operation and Maintenance Expenses[(1)]: | | | | |
| Electric | $167,524 | $203,506 | $217,082 | $225,291 |
| Water | 13,132 | 13,321 | 13,558 | 14,827 |
| Wastewater | 13,583 | 13,968 | 14,334 | 17,388 |
| Gas | 14,779 | 16,726 | 15,318 | 14,577 |
| GRUCom | 5,374 | 6,492 | 8,460 | 7,422 |
| Total Operation and Maintenance Expenses | $214,392 | $254,013 | $268,752 | $279,505 |
| Net Revenues: | | | | |
| Electric | $81,886 | $76,976 | $81,832 | $82,781 |
| Water | 19,236 | 18,506 | 18,965 | 18,991 |
| Wastewater | 24,083 | 22,084 | 23,927 | 24,958 |
| Gas | 9,462 | 9,075 | 8,793 | 9,748 |
| GRUCom | 6,832 | 4,202 | 4,140 | 4,322 |
| Total Net Revenues | $141,499 | $130,843 | $137,657 | $140,800 |
| Aggregate Debt Service on Bonds | $56,101 | $54,860 | $55,461 | $55,822 |
| Debt Service Coverage Ratio for Bonds | 2.52 | 2.39 | 2.48 | 2.52 |
| Debt Service on Subordinated Indebtedness[(2)] | $11,789 | $5,182 | $6,178 | $6,205 |
| Total Debt Service on Bonds and Subordinated Indebtedness | $67,890 | $60,042 | $61,639 | $62,027 |
| Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness | 2.08 | 2.18 | 2.23 | 2.27 |

(1) Includes administrative expenses.

(2) Excludes principal of maturing commercial paper notes which were paid from newly-issued commercial paper notes.

Source: Prepared by the Finance Department of the System.

As described above under "THE ELECTRIC SYSTEM—Renewable Energy," in order to further its goal to make renewable energy and carbon management strategies a more significant component of the System's long-term power supply acquisition program, the System entered into the PPA in 2009 for thirty (30) years for the purchase of 102.5 MW (net firm) of biomass-fueled power generation from GREC

described under "Energy Supply System – *Power Purchase Arrangements – Gainesville Renewable Energy Center*" herein. The annual costs of acquiring these resources are included in the System's fuel and purchased power adjustment clause, resulting in recovery from all customers. The System's renewable energy portfolio is part of a long-term strategy to hedge against potential future carbon tax and trade programs. As described in "LITIGATION" in the forepart of this Reoffering Memorandum, there is ongoing binding arbitration between GREC and the City relating to the PPA. Relating thereto, the City and GREC have initiated preliminary discussions regarding the potential purchase of the GREC biomass power generation plant by the City only if it would result in fiscal savings for the System. Such potential savings would be expected to derive from termination of the PPA, more optimal utilization of the biomass power generation plant, and a potential re-engineering/re-purposing of such plant to some degree which could alleviate some of the otherwise necessary capital improvements at Deerhaven Unit # 1. For more information about the capital improvement program for the Electric System, see "THE ELECTRIC SYSTEM—Capital Improvement Program" which does not take into account any possible changes in the capital improvement program needs resulting from any such purchase. Such discussions have led to the execution and delivery of a Memorandum of Understanding executed by both parties as of April 24, 2017 ("MOU") which, amongst other things, includes a proposed asset purchase price of $750 million. The parties are now negotiating the terms of an Asset Purchase Agreement. Such purchase, while possible, is not imminent. In addition to the benefits described above, GRU management believes that termination of the PPA and the simultaneous purchase of such plant would further the System's goal to make renewable energy and carbon management strategies a more significant component of the System's long-term power supply acquisition program, by removing some limitations, uncertainty and inflexibility that exist because of the PPA and by giving the System more cost-effective control of its long-term power supply acquisition program. However, if such purchase does occur, historical debt service coverage levels shown in the table above would not be indicative of anticipated future debt service coverage levels in effect after such purchase, in part, because of the debt which would be necessary to finance the costs of such purchase. The amount of such coverage level decrease is unknown at this very early and speculative stage of discussion. In any event, such purchase is not expected to adversely affect the City's ability to pay debt service on the Senior Lien Bonds, or to otherwise comply with any of its obligations under the Senior Bond Resolution, including the rate covenant.

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.

See also "Management's Discussion and Analysis" in the audited financial statements of the System referenced in APPENDIX B attached hereto. In addition, for a discussion of derivative transactions entered into by the System, see Note 9 to the audited financial statements of the System in APPENDIX B attached hereto.

## ADDITIONAL FINANCING REQUIREMENTS

The System's current six-year capital improvement program requires a total of approximately $393.4 million in capital expenditures in the fiscal years ending September 30, 2017 through and including 2022, and does not include the GREC biomass power generation plant purchase proposal described

above. Such amount is expected to be funded in part from remaining construction funds from previous financings, construction fund interest earnings, Revenues, and approximately $123.5 million of future additional Senior Lien Bonds and/or Subordinated Indebtedness (including additional commercial paper notes) that the City expects will be during that timeframe.

## 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 for the fiscal year ended September 30, 2015 and 2014 by 8.5% and 5.6%, respectively. For the fiscal year ended September 30, 2016, requirements were unchanged and will remain unchanged through 2017. While the System has experienced upward rate pressure due to sales growth, increased efficiencies and cost controls have kept the overall customer bill increases, including fuel, in line with inflation. For the fiscal years ended September 30, 2014 and 2015, the electric system deposited $6.4 million and $2.3 million, respectively, to the Rate Stabilization Fund. For the fiscal year ended September 30, 2016, the electric system is projected to withdraw approximately $1.0 million from the Rate Stabilization Fund.

Energy sales (in MWh) to retail customers increased 1.4% per year from the fiscal year ended September 30, 2012 to the fiscal year ended September 30, 2016. The number of electric customers increased at an average annual rate of 0.6% for the fiscal years ended September 30, 2012 and 2016. Energy sales to the City of Alachua also decreased 3.7% per year during this period.

Native load fuel costs for the electric system between the fiscal years ended September 30, 2014 and 2015 increased by approximately $17.1 million (11%). This increase in native load fuel costs is due to the addition of the City of Winter Park in our wholesale energy load as well as fluctuating fuel prices. Between the fiscal years ended September 30, 2015 and 2016, the electric fuel cost decreased by approximately $1.0 million (1%). From the fiscal year ended September 30, 2014 to the fiscal year ended September 30, 2015, fuel revenues increased by $20.3 million (13%). This increase in revenues was due to the increase in Fuel Adjustment Revenue required to offset the above cost increases. From the fiscal year ended September 30, 2015 to the fiscal year ended September 30, 2016 fuel revenues decreased by approximately $10.2 million (7%). This decrease is mainly attributable to the decrease in Fuel Adjustment Revenue collected from customers during this time period.

For the fiscal years ended September 30, 2012 and 2016, natural gas sales increased by 0.9% per year. The number of gas customers increased at an annual rate of approximately 0.90% between fiscal years ended September 30, 2012 and 2016.

Natural gas fuel cost decreased by approximately $1.2 million (12%) between the fiscal years ended September 30, 2014 and 2015, and increased by approximately $410 thousand (4%) between the fiscal years ended September 30, 2015 and 2016. This fluctuation in gas cost is reflective of the natural gas commodity market prices during the same timeframe. Since these costs are passed along to customers as part of the purchased gas adjustment charge each month, any natural gas cost increases or decreases are

offset by purchased gas adjustment revenues. The base rate revenue requirement for the natural gas system remained unchanged for the fiscal year ended September 30, 2013, with a nominal increase of 0.85% for the fiscal year ended September 30, 2014. For each of the fiscal years ended September 30, 2015 and 2016, base rate revenue requirements for the gas system were increased by 4.75% and for fiscal year 2017 the base rate revenue requirement was increased by 9.0%. For the fiscal year ended September 30, 2014, the natural gas system withdrew approximately $1.0 million from the Rate Stabilization Fund. For the fiscal year ended September 30, 2015, the natural gas system deposited approximately $1.6 to the Rate Stabilization Fund. For the fiscal year ended September 30, 2016, the natural gas system withdrew approximately $2.0 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 $17.0 million. See "THE NATURAL GAS SYSTEM – Manufactured Gas Plant" herein. The MGP has billed at a rate of $0.0556 per therm since October 1, 2014.

Water system sales are impacted by seasonal rainfall. For the fiscal year ended September 30, 2012 and 2016, sales decreased by an average annual rate of 1.9% and customers grew by 0.8%. Revenues from water sales increased by approximately $3,175,682 for the fiscal year ended September 30, 2012 and 2016. The water revenue increases were primarily 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 3.5% in the fiscal year ended September 30, 2013, 3.85% in the fiscal year ended September 30, 2014, 3.75% in each of the fiscal years ended September 30, 2015 and 2016, and for the fiscal year ending September 30, 2017, the base rate revenue requirement was increased by 3.0%. For the fiscal years ended September 30, 2014 and 2015, the water system contributed approximately $540,000 and $2.4 million, respectively, to the Rate Stabilization Fund. For the fiscal year ended September 30, 2016, the water system deposited approximately $3.3 million to the Rate Stabilization Fund.

Wastewater system billings generally track water system sales. From the fiscal year ended September 30, 2012 to 2016, the wastewater system billing volumes decreased 1.1% per year. Revenues during this same period increased 10.9% due to base rate revenue requirement increases. Approximately 0.4% more wastewater was billed for the fiscal year ended September 30, 2016, as compared to fiscal year ended September 30, 2015, while revenues increased by 4.8% during the period, also due to base rate revenue requirement increases.

Wastewater base rate revenue requirements were increased by 3.00% in the fiscal year ended September 30, 2013, 2.4% in the fiscal year ended September 30, 2014, 4.85% in each fiscal years ended September 30, 2015 and 2016, and for the fiscal year ending September 30, 2017 the base rate revenue requirement was increased by 3.0%.

For the fiscal years ended September 30, 2014 and 2015, the wastewater system deposited approximately $2.1 million and $2.9 million, respectively, to the Rate Stabilization Fund. The wastewater system deposited approximately $2.1 million to the Rate Stabilization Fund for the fiscal year ended September 30, 2016. GRUCom's sales have increased from $10.9 million in fiscal year ended September 30, 2012 to $11.7 million in fiscal year ended September 30, 2016. This is a 7.27% increase over this 4 year time period. Sales were $10.7 million, $11.2 million and $10.9 million in fiscal years ended September 30, 2013, 2014 and 2015, respectively. For the fiscal year ended September 30, 2014, GRUCom deposited approximately $570,000 to the Rate Stabilization Fund. GRUCom withdrew approximately $1.4 million

from the Rate Stabilization Fund, for the fiscal year ended September 30, 2015 and for the fiscal year ended September 30, 2016, GRUCom deposited approximately $7,400 to the Rate Stabilization Fund.

The debt service coverage ratio (DSCR) is a financial ratio that measures a company's ability to service its current debts by comparing its net operating income with its total debt service obligations. The below table shows GRU's DSCR for year's fiscal year 2011 through and including fiscal year 2016.

**Debt Service Coverage**

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Total Net Revenues | 153,547,019 | 149,549,879 | 141,499,181 | 130,842,529 | 137,657,063 | 140,800,171 |
| Total Debt Service including Swaps | 70,268,626 | 69,793,875 | 67,889,965 | 60,042,332 | 61,638,702 | 62,027,441 |
| Debt Service Coverage Ratio | 2.19 | 2.14 | 2.08 | 2.18 | 2.23 | 2.27 |

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.

**Transfers to General Fund**

The City Commission established a General Fund transfer formula for the System for fiscal year 2015 through fiscal year 2019 pursuant to Resolution Number 140166, adopted on July 23, 2014. The general fund transfer formula will be up for renewal beginning with the fiscal year ending September 30, 2020. The transfer formula established the base amount of the fiscal year 2015 transfer, less the amount of ad valorem revenue received each year by the City from GREC. The fiscal year 2015 base transfer amount increases each fiscal year over the period between fiscal year 2016 through fiscal year 2019 by 1.5%.

This transfer formula is to be reviewed at least every other year by the System's staff and the City's General Government staff. The transfer amount may be paid from any part of the System's revenue or a combination thereof. The City Commission may modify the transfer amount or the transfer formula at any time.

[Remainder of page intentionally left blank]

The transfers to the General Fund made in the fiscal years ended September 30, 2012 through and including 2016 were as follows:

| | Transfers to General Fund | |
|---|---|---|
| Fiscal Years ended September 30, | Amount | % Increase/(Decrease) |
| 2012 | $36,004,958 | 2.2% |
| 2013 | 36,656,458 | 1.8% |
| 2014 | 37,316,841[(1)] | 1.5% |
| 2015 | 34,892,425 | (7.1)% |
| 2016 | 34,994,591 | 0.03% |

[(1)] Year ended September 30, 2014 was the last year of a four year agreement regarding General Fund Transfer calculation methodology, where the agreed upon value was compared to prior formulaic calculation and a gain/loss sharing was applied.

Source: Prepared by the Finance Department of the System.

The projected transfers to the General Fund made in the fiscal years ended September 30, 2017 through and including 2020 are as follows:

| | Projected Transfers to General Fund | |
|---|---|---|
| Fiscal Years ended September 30, | Amount | % Increase/(Decrease) |
| 2017 | $35,456,059 | 2.3% |
| 2018 | 36,009,861 | 1.6% |
| 2019 | 36,571,971 | 1.6% |
| 2020 | 37,142,512 | 1.65% |

Source: Prepared by the Finance Department of the System.

**Investment Policies**

The System's investment policy provides for investment of its funds. The primary goals of the investment policy are (1) preservation of capital, (2) providing sufficient liquidity to meet expected cash flow requirements, and (3) providing returns commensurate with the risk limitations of the program. The System's funds are invested only in securities of the type and maturity as permitted by the Senior Bond Resolution and the Subordinated Bond Resolution, Florida Statutes and its internal investment policy. 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 Florida PRIME or the former Local Government Surplus Funds Trust Fund administered by the State's Board of Administration).

**Debt Management Policy**

The System's debt management policy applies to all current and future debt and related hedging instruments issued by the System and approved by the City Commission. The purpose of the policy is to provide guidance for issuing and managing debt. The System debt is required to be managed with an overall philosophy of taking a long term approach in borrowing funds at the lowest possible interest cost. To achieve this goal, the System will continuously work towards developing an optimal capital structure,

including the types of variable rate exposure, in view of the System's risk tolerance to market fluctuations, capital market outlook, future capital funding needs, rating agency considerations, and counterparty credit profiles.

**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 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'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 Duke's cogeneration plant at the University of Florida where 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 rebates and distribution system construction credits are employed to encourage and stimulate customer growth. In addition, temporary LP distribution systems may be constructed to encourage and rapidly accommodate the acquisition of a customer base that is just beyond an economic expansion of the natural gas distribution system. These LP systems and customer 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 several nearby cities in the County. 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 the County.

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 a fully deregulated and competitive telecommunications environment. Management has taken a targeted approach to this enterprise, seeking opportunities that maximize use of System assets, which include widely deployed fiber optic communication facilities and existing elevated antenna structures (communications towers and water tanks), while also taking advantage of its professional employee expertise in areas of utility and public safety operations, information technology (IT) and its close working relationships within the local businesses community and the commercial property development industry. GRUCom primarily engages its customer markets as a business-to-business (B2B) enterprise taking a consultative sales approach to solicit its services to private companies, governments, telecommunications carriers, major institutions and other similar commercial users of high volume voice, data and Internet bandwidth applications.

GRUCom also provides data center co-location services within its telecommunications central office building providing leased access to conditioned space, redundant power and building systems and highly available communications facilities. Tenants include private businesses and government agencies co-located for the purpose of off-site data back-up and storage, on-line hosting service providers co-located for the purpose of accessing reliable high-capacity Internet connectivity, and other Internet and telecommunications service providers who gain access to GRUCom's excellent local fiber transmission services at preferential rates available only to co-located resellers.

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 near the premises of the development. Additionally, the chilled water systems are modular and can be expanded incrementally as the customer base grows. 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.

The Innovation District is an area of approximately 80 acres between the University of Florida's campus and downtown Gainesville that has been master planned and is being transformed into an area of high urban density to house and support scientific research and development and technology based businesses as well as residential, retail, and hospitality 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 and has another building known as Innovation Hub Phase II under construction. Innovation Square is a research oriented development that forms the nucleus of the Innovation District. The Innovation District is projected to be comprised of approximately 3.7 million square feet of lab, business, residential, commercial, and institutional space. The System will have the opportunity to 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 more than 10 MW.

Redevelopment of the Innovation District is an ambitious undertaking and has required that basic utility infrastructure be upgraded to support the dense urban development that is envisioned. Redevelopment in and around downtown Gainesville, particularly when coupled with the University of Florida's international reputation as a premier scientific research institution, presents tremendous opportunities for economic growth.

In order to help facilitate development in the Innovation District the System has designated an Innovation District "Infrastructure Improvement Area" within which the System is constructing water distribution system and wastewater collection system capacity improvements according to a master plan. The System is charging an additional fee to new development projects within the area to recover its costs. This mechanism allows critical capacity improvements to be constructed as efficiently as possible. For more information, see "Rates—Water and Wastewater System—Infrastructure Improvements Area" above

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 an exclusive provider contract with the University of Florida Development Corporation. 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**

The System has entered into certain agreements that contain provisions giving counterparties certain rights and options in the event of a downgrade in the System's credit ratings below specified levels and/or the occurrence of certain other events or circumstances. 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 the System's liquidity, results of operations or financial condition. However, the System's ratings reflect the views of the rating agencies and not of the

System, and therefore, the System cannot give any assurance that its ratings will be maintained at current levels for any period of time.

*Liquidity Support for the System's Variable Rate Bonds*

The System 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, the 2008 Series B Bonds and the 2012 Series B Bonds (collectively the "Liquidity Supported Bonds"). The following details the Liquidity Supported Bonds, the bank providing the liquidity support and the termination date of the current facility:

| Series | Bank | Expiration |
|---|---|---|
| 2005C | Landesbank Hessen Thüringen Girozentrale | November 24, 2020 |
| 2006A | Landesbank Hessen Thüringen Girozentrale | November 24, 2020 |
| 2007A | State Street Bank and Trust Company | March 1, 2018* |
| 2008B | Bank of Montreal | July 7, 2017* |
| 2012B | Sumitomo Mitsui Banking Corporation | January 12, 2018* |

* Substitution of the liquidity facilities are in process. The 2008 Series B Bonds with Bank of Montreal is being replaced by Barclay's Bank PLC, as described in the forepart of this Reoffering Memorandum, and 2012 Series B Bonds with Sumitomo Mitsui Banking Corporation is being replaced by Citibank, NA.

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 the System for payment upon the occurrence of certain "events of default" with respect to the System under such standby bond purchase agreement. Upon any such tender or deemed tender, the Liquidity Supported Bond so tendered or deemed tendered will be due and payable immediately.

The standby bond purchase agreements relating to the 2005 Series C Bonds and the 2006 Series A Bonds, provides that it is an "event of default" on the part of the System thereunder if any of the ratings fall below "A2" (or its equivalent) by Moody's and below "A" (or its equivalent) by S&P, or below "A" (or its equivalent) by Fitch or is withdrawn or suspended. The standby bond purchase agreement relating to the 2007 Series A Bonds provides that it is an "event of default" on the part of the System thereunder if the ratings on the 2007 Series A Bonds, without taking into account third-party credit enhancement, fall below "Baa3" by Moody's and "BBB-" by S&P or are withdrawn or suspended. The standby bond purchase agreement relating to the 2008 Series B Bonds provides that it is an "event of default" on the part of the System thereunder if any rating on the 2008 Series B Bonds or any Parity Debt, without taking into account third-party credit enhancement, falls below "Baa3" by Moody's, "BBB-" by S&P or "BBB-" by Fitch or is withdrawn or suspended (other than any withdrawal or suspension that is taken for non-credit related reasons). The standby bond purchase agreement relating to the 2012 Series B Bonds provides that it is an "event of default" on the part of the System 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. Replacement of the standby bond purchase agreement relating to the 2008 Series B Bonds provided by Bank of Montreal is pending a

replacement. An RFP is currently in process. Any Liquidity Supported 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 the System's Commercial Paper Program*

The System also has entered into separate credit agreements with certain commercial banks in order to provide liquidity support for the CP Notes. The CP Notes constitute Subordinated Indebtedness under the Senior Bond Resolution. If, on any date on which a CP Note of a particular series matures, the System 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 the principal of such maturing CP Note. The credit agreements for the Series C Notes and the Series D Notes currently have stated termination dates of November 30, 2018 and August 28, 2017, respectively, which dates are subject to extension in the sole discretion of the respective banks. The System will renew the credit agreement with State Street Bank and Trust on the Series D Notes with a three year extension.

The credit agreements provide that, upon the occurrence and continuation of certain "tender events" on the part of the System 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 the System for any outstanding principal and accrued interest due under the respective credit agreement.

With respect to the Series C Notes, among others, it is an immediate termination event under the related credit agreement if the ratings assigned to any of the System's Bonds 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 Notes, among others, it is an immediate termination event under the related credit agreement if the ratings assigned to any of the System's Bonds fall below "Baa" by Moody's, "BBB-" by S&P or "BBB-" by Fitch 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*

The System 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 Notes. The current counterparties are Merrill Lynch Capital Services, Inc., Goldman Sachs Mitsui Marine Derivative Products, L.P. and JP Morgan Chase Bank, National Association. For additional information concerning those interest rate swap transactions, ratings of the counterparties, etc., see the footnotes to the table under "OUTSTANDING DEBT" in the forepart of this Reoffering Memorandum.

Under the master agreements, the interest rate swap transactions entered into pursuant to such master agreements are subject to early termination upon the occurrence of certain "events of default" and

upon the occurrence of certain "termination events." One such "termination event" with respect to the System is a suspension or withdrawal of certain credit ratings with respect to the System, or a downgrade of such ratings below the levels set forth in the master agreement or in the confirmation related to a particular interest rate swap transaction. Upon the early termination of an interest rate swap transaction, the System 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 the System contained in the master agreements range from (x) if any two ratings on the Bonds are below "Baa2" by Moody's and/ or "BBB" by S&P and/ or "BBB" by Fitch to (y) if the City fails to have at least one rating on the Bonds of "Baa3" by Moody's, "BBB-" by S&P or "BBB-" by Fitch.

As of September 30, 2016, the System's estimated aggregate exposure under all of its then outstanding interest rate swap transactions (*i.e.*, the net amount of the termination payments that the System would owe its counterparties if all of the interest rate swap transactions were terminated) was $93,138,518.72. As of September 30, 2015, the System's estimated aggregate exposure under all of its then outstanding interest rate swap transactions was $77,042,766.58. As of September 30, 2014, the System's estimated aggregate exposure under all of its then outstanding interest rate swap transactions was $55,103,516.23.

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

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

Fair value is defined in Statement No. 72 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

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

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

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

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

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

U.S. Treasury securities are valued using quoted market prices (Level 1 inputs).

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

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

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

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

The City entered into the 2005 Series C Swap Transaction in order to synthetically fix, subject to the "basis risk" described in such footnote, the interest rate on the 2005 Series C Bonds. Since the Refunded Tax-Exempt 2005 Bonds were refunded through the issuance of the variable rate 2012 Series B Bonds, the City left 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 does not specifically match, in terms of its notional amount and amortization, the 2012 Series B Bonds. In addition, the City entered into the 2006 Series A Swap Transaction in order to synthetically fix, subject to the "basis risk" described in such footnote, the interest rate on the 2006 Series A Bonds. Since the Refunded Tax-Exempt 2006 Bonds were refunded through the issuance of the variable rate 2012 Series B Bonds, the City left 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 does not specifically match, in terms of its notional amount and amortization, the 2012 Series B Bonds.

See Note 9 to the audited financial statement of the System "Hedging Activities" for the fiscal year ended September 30, 2016 in APPENDIX B attached hereto for a discussion of the various risks borne by the City relating to interest rate swap transactions.

*Coal Supply Agreements*

The System had two coal contracts that ended in 2016 and is currently not under any coal supply agreements. At this time, the System makes coal purchases off the spot market as needed.

*GREC LLC PPA*

The PPA with GREC LLC contains provisions entitling GREC LLC to exercise certain rights based upon the System's creditworthiness.

Pursuant to the PPA, the System is 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 provides that the System is 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 City, in consultation with its auditors, concluded that the PPA with GREC LLC should be classified for accounting purposes as a "capital lease." Accordingly, beginning in fiscal year ended September 30, 2014, a capital lease liability and a related asset of the PPA with GREC LLC was recorded in the financial statements for approximately $1 billion.

## FACTORS AFFECTING THE UTILITY INDUSTRY

### General

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

The role of municipalities as telecommunications providers pursuant to the 1996 Federal Telecommunications Act resulted in a number of state-level legislative initiatives across the nation to curtail this activity. In Florida, this issue culminated in the passage, in 2005, of legislation codified in Section 350.81, Florida Statutes (Section 350.81) that defined the conditions under which municipalities are allowed to provide retail telecommunications services. Although the System has special status as a

grandfathered entity under this legislation, the provision of certain additional retail telecommunications services by the System would implicate certain requirements of Section 350.81. Management of the System does not expect that any required compliance with the requirements of Section 350.81 would have a material adverse effect on the operations or financial condition of GRUCom.

**Environmental and Other Natural Resource Regulations**

The System and its operations are subject to federal, state and local environmental regulations which include, among other things, control of emissions of particulates, $SO_2$ 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 generally are becoming more numerous and more stringent and, as a result, may substantially increase the costs of the System's services by requiring changes in the operation of existing facilities as well as changes in the location, design, construction and operation of new facilities (including both facilities that are owned and operated by the System as well as facilities that are owned and operated by others (including, particularly, GREC), from which the System purchases output, services, commodities and other materials). There is no assurance that the facilities in operation, under construction or contemplated will always remain subject to the regulations currently in effect or will always be in compliance with future regulations. Compliance with applicable regulations could result in increases in the costs of construction and/or operation of affected facilities, including associated costs such as transmission and transportation, as well as limitations on the operation of such facilities. Failure to comply with regulatory requirements could result in reduced operating levels or the complete shutdown of those facilities not in compliance as well as the imposition of civil and criminal penalties.

Increasing concerns about climate change and the effects of GHGs on the environment have resulted in EPA finalizing on August 3, 2015 carbon regulations, the Clean Power Plan, for existing power plants. Currently, the Clean Power Plan is being litigated and on April 28, 2017, the U.S. Court of Appeals for the D.C. Circuit issued orders in the challenges to the Clean Power Plan and the greenhouse gas new source performance standards ("GHG NSPS") holding the challenges in abeyance for 60 days, or until June 27, 2017. EPA is directed to file status reports every 30 days in both challenges. Further litigation is expected regardless of the DC Circuit Court of Appeals decision. In addition, the EPA has been given presidential direction to review the Clean Power Plan. **[The court has also ordered the parties to file supplemental briefs addressing whether the challenges should be remanded to EPA rather than held in abeyance. The briefs are due by May 15, 2017.]**

**Air Emissions**

*The Clean Air Act*

The Clean Air Act regulates emissions of air pollutants, establishes national air quality standards for major pollutants, and requires permitting of both new and existing sources of air pollution. Among the provisions of the Clean Air Act that affect the System's operations are (1) the acid rain program, which requires nationwide reductions of $SO_2$ 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 BACT for all regulated air pollutants and an analysis of the ambient air quality impacts of a facility. In 2009, the EPA announced plans to actively pursue new source review enforcement actions against electric utilities for making such changes to their coal-fired power plants without completing new source review. Under Section 114 of the Clean Air Act, the EPA has the authority to request from any person who owns or operates an emission source, information and records about operation, maintenance, emissions, and other data relating to such source for the purpose of developing regulatory programs, determining if a violation occurred (such as the failure to undergo new source review), or carrying out other statutory responsibilities.

*The Cross-State Air Pollution Rule (CSAPR)*

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

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

On October 5, 2012, the EPA filed a petition for rehearing *en banc* with the D.C. Circuit Court requesting that the full court reconsider the August 21, 2012 decision. That request was denied. On Friday, March 29, 2013, the Department of Justice and several environmental groups filed Petitions for *certiorari*, asking the Supreme Court to accept the case and overturn CSAPR. The Supreme Court granted *certiorari* on June 24, 2013. On April 29, 2014, the Supreme Court reversed part of the D.C. Circuit Court's decision, upholding parts of the CSAPR program, and remanded other issues back to the D.C. Circuit Court for further proceedings. The D.C. Circuit Court set a deadline of July 3, 2014 for the parties to brief on how they would like to proceed with the remaining issues and lawsuits. On June 26, 2014, the EPA filed a Motion with the D.C. Circuit Court to lift the stay of the CSAPR. EPA has indicated that, at this time, CAIR remains in place and that no immediate action by the states or affected sources is expected. EPA is reviewing the Supreme Court's decision and is evaluating next steps, including how to address compliance deadlines that passed during the ongoing litigation and stay. On October 23, 2014, the U.S. Court of Appeals for the District of Columbia Circuit ("D.C. Circuit") granted EPA's request that the court lift the stay of the Cross State Air Pollution Rule (CSAPR). While the court did not specifically address EPA's request that the court extend CSAPR's compliance deadlines by three years, the System believes that, by granting EPA's motion, the court granted EPA's request.

On July 28, 2015, the D.C. Circuit ruled that Florida's allowance budget is invalid and remanded CSAPR to EPA. On October 26, 2016 EPA published, in the *Federal Register* at 81 Fed. Reg. 74504, an update to the Cross-State Air Pollution Rule (CSAPR) to address the 2008 Ozone National Ambient Air Quality Standards. For three states (North Carolina, South Carolina and Florida), EPA is removing the states from the CSAPR ozone season NOx trading program because modeling for the Final Rule indicates

that these states do not contribute significantly to ozone air quality problems in downwind states under the 2008 ozone NAAQS. Therefore, GRU will not have to meet ozone season limits in 2017 and, most likely, 2018.

*Mercury and Air Toxics Standards (MATS)*

On December 16, 2011, the EPA promulgated a rule to reduce emissions of toxic air pollutants from power plants. Specifically, these mercury and air toxics standards or MATS for power plants will reduce emissions from new and existing coal- and oil-fired electric utility steam generating units (EGU). The EPA also signed revisions to the new source performance standards for fossil fuel-fired EGUs. Such revisions revised the standards that new coal- and oil-fired power plants must meet for particulate matter, $SO_2$ and $NO_X$. On November 25, 2014, the United States Supreme Court accepted certiorari to hear challenges to the mercury rules.

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

On April 14, 2016, the Administrator of the Environmental Protection Agency (EPA) signed the final supplemental finding in the Mercury and Air Toxic Standard (MATS) rule. The new "appropriate and necessary" finding responds to the U.S. Supreme Court decision in Michigan v. EPA, and explains how EPA has taken cost into account in evaluating whether it is appropriate and necessary to regulate coal- and- oil-fired electric utility steam generating units (EGUs) under Section 112 of the Clean Air Act (CAA). EPA still concludes it is proper to regulate mercury emissions from power plants.

On May 6, 2016, EPA filed a brief urging the U.S. Supreme Court to deny a *writ of certiorari* filed by 20 states requesting that the Court review and reverse a decision by the U.S. Court of Appeals for the D.C. Circuit to remand EPA's Mercury and Air Toxics Standards (MATS) rule to the Agency without vacating the rule. According to EPA's brief, the Supreme Court should deny review of whether the MATS rule should have been vacated while EPA made its "appropriate and necessary" finding because the issue is moot now that EPA has issued the finding. Additionally, EPA argues that the Clean Air Act (CAA), not the Administrative Procedure Act, governs whether the MATS rule should have been vacated and the CAA does not mandate vacatur of a rule on remand. Rather, the CAA gives a court discretion on whether to vacate a remanded rule based on the circumstances. Finally, EPA asserts that the D.C. Circuit was correct in not vacating the MATS rule on remand because EPA could quickly remedy the legal deficiency and vacating the rule would have been harmful to the public because it would have allowed an increase in emissions of HAPs from EGUs.

Murray Energy became the first party to appeal the final MATS Appropriate and Necessary Finding, filing its petition for review on April 25, 2016, the same day the rule was published in the *Federal Register*. 81 Fed. Reg. 24,420 (Apr. 25, 2016). All petitions for review of the Finding must be filed in the U.S. Court of Appeals for the District of Columbia Circuit no later than June 24, 2016. As of the deadline, the following petitions for review have been filed in the U.S. Court of Appeals for the District of Columbia Circuit ("D.C. Circuit"):

- *Murray Energy Corp. v. EPA*, No. 16-1127
- *ARIPPA v. EPA*, No. 16-1175
- *Michigan v. EPA*, No 16-1204
- *Oak Grove Management Co. v. EPA*, No. 16-1206
- *Southern Company Services, Inc. v. EPA*, No. 16-1208
- *Utility Air Regulatory Group v. EPA*, No. 16-1210

The cases have been consolidated under the lead case *Murray Energy Corp. v. EPA*, No. 16-1127.

On October 14, 2016, the U.S. Court of Appeals for the District of Columbia Circuit issued orders establishing the briefing schedule for the challenge related to EPA's Mercury and Air Toxic Standard (MATS). In *Murray v. EPA*, 16-1127 (D.C. Cir.), industry petitioners challenge EPA's supplemental determination that it was "appropriate and necessary" to regulate emissions of hazardous air pollutants from electric generating units. The briefing schedules are as follows:

- EPA Brief: January 19, 2017
- Brief(s) of Respondent-Intervenors: February 10, 2017
- Reply brief(s) of State and Industry Petitioners: February 24, 2017
- Final Briefs: March 24, 2017

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

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

So far, since the MATS program became effective on April 16, 2015, GRU's Deerhaven Unit #2 (the only MATS unit) has been able to comply with all requirements.

*Effluent Limitation Guidelines*

In November 2010, the EPA agreed to propose the power plant Effluent Limitation Guidelines (ELG) for coal-fired steam electric plants by July 23, 2012 and finalize the guidelines in May 2014. The ELGs were last revised in 1982. The EPA is considering more stringent limits for new metals and parameters for individual wastewater streams generated by steam electric power plants with emphasis on coal-fired power plants. The EPA will evaluate the technologies and costs to remove those metals and identify the Best Available Technology (BAT) to affect their control in coal-fired power plant effluent. After a number of delays in issuing the proposed ELG rule, EPA issued a draft rule on June 7, 2013 and accepted comments on the rule until September 20, 2013. On April 7, 2014, the EPA signed a settlement agreement with environmental groups that commits the Agency to take final action by September 30, 2015 on EPA's proposed rule addressing effluent limitation guidelines for power plants under the Clean Water Act.

On September 30, 2015, EPA issued a final rule addressing effluent limitation guidelines (ELG) for power plants under the Clean Water Act. The final rule establishes Best Available Technology Economically Achievable (BAT), New Source Performance Standards (NSPS), Pretreatment Standards for Existing Sources (PSES), and Pretreatment Standards for New Sources (PSNS) that may apply to discharges of six waste streams: flue gas desulfurization (FGD) wastewater, fly ash transport water, bottom ash transport water, FGMC wastewater, gasification wastewater, and combustion residual leachate.

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

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

The Utility Water Act Group ("UWAG"), On March 24, 2017, filed an administrative petition for reconsideration of EPA's "Effluent Limitations Guidelines and Standards for the Steam Electric Power Generating Point Source Category" ("ELG Rule") finalized in 2015. The petition requests EPA reconsider the ELG Rule and seeks an administrative stay to suspend all compliance deadlines, while EPA works to reconsider and revise the rule.

On April 12, 2017, the EPA Administrator, Scott Pruitt, announced that he will reconsider the effluent limitation guidelines ("ELG") for the power sector, in response to the two petitions for reconsideration received from the Utility Water Act Group, and the Small Business Administration's Office of Advocacy. Both petitions raised concerns that the 2015 ELG Rule imposed unreasonable costs and lacked scientific support.

Sierra Club, Clean Water Action, and a handful of other groups filed on May 3, 2017, a legal challenge against EPA's ELG stay. The complaint, filed in the U.S. District Court for the D.C. Circuit, cites six supposed legal deficiencies in EPA's stay, and the groups ask the court to vacate the stay and

compel EPA to reinstate the compliance deadlines. All parties are now waiting on a decision by the court.

*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 Facilities – Deerhaven*" herein for a description of the actions that have been taken by the System to install additional emission control equipment at DH 2 and reduce $SO_2$ and $NO_X$ emissions that potentially contribute to regional haze.

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

The reasonable further progress (RFP) section of Florida's regional haze state implementation plan, which has been approved by EPA, applies to DH 2. The System has voluntarily requested a cap on $SO_2$ emissions, which provides DH 2 with an exemption from the RFP section. A draft permit from the FDEP was issued on June 1, 2012 approving the System's requested cap on $SO_2$ emissions, and the final permit was issued on June 26, 2012.

*Internal Combustion Engine MACT*

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

**Climate Change**

On June 25, 2013, President Obama issued a Presidential Memorandum directing the EPA to work expeditiously to complete GHG standards for the power sector. The agency is using its authority under section 111(d) of the Clean Air Act to issue emission guidelines to address GHG emissions from existing power plants. The Presidential Memorandum specifically directed EPA to build on state

leadership, provide flexibility and take advantage of a wide range of energy sources and technologies towards building a cleaner power sector. It also directed EPA to issue proposed GHG standards, regulations or guidelines, as appropriate, for existing power plants by no later than June 1, 2014, and issue final standards, regulations or guidelines, as appropriate, by no later than June 1, 2015. In addition, the Presidential Memorandum directed EPA to include in the guidelines, addressing existing power plants, a requirement that states submit to EPA the implementation plans required under section 111(d) of the Clean Air Act and its implementing regulations by no later than June 30, 2016. States would be able to request more time to submit complete implementation plans with the EPA being able to allow states until June 30, 2017 or June 30, 2018, as appropriate, to submit additional information completing the submitted plan no later than June 30, 2016.

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

On October 23, 2015, the American Public Power Association ("APPA") and the Utility Air Regulatory Group (UARG) filed a joint petition for review of the Environmental Protection Agency's final Section 111(d) rule to regulate carbon dioxide ($CO_2$) emissions from existing electric generating sources (EGU) in the U.S. Court of Appeals for the District of Columbia Circuit. In addition, the state of West Virginia joined by Texas, Alabama, Arkansas, Colorado, Florida, Georgia, Indiana, Kansas, Kentucky, Louisiana, Michigan, Missouri, Montana, Nebraska, New Jersey, Ohio, South Carolina, South Dakota, Utah, Wisconsin, Wyoming, the Arizona Corporation Commission, and the North Carolina Department of Environmental Quality also filed their motion to stay the final Section 111(d) rule under the Clean Air Act. Such a stay would put implementation of the rule on hold until the court decides on its legality.

On January 26, 2016, 29 states requested that the U.S. Supreme Court stay implementation of the final greenhouse gas ("GHG") existing source performance standards for power plants (the "Clean Power Plan" or CPP (80 Fed. Reg. 64662 - Oct. 23, 2015)), pending judicial review of the rule. On February 9, 2016, the Supreme Court granted the applications of numerous parties to stay the Clean Power Plan pending judicial review of the rule. The stay will remain in effect pending Supreme Court review if such review is sought. Since the US Supreme Court stayed the EPA rulemaking on the Clean Power Plan, that extraordinary action will delay any regulatory action until at least 2017 at the earliest, GRU continues to closely monitor any activities with respect to Climate Change and GHGs.

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

**Coal Combustion Products**

The Environmental Protection Agency (EPA) published a final rule (40 CFR 257), effective October 14, 2015, to regulate the disposal of coal combustion residuals (CCR) as solid waste under

subtitle D of the Resource Conservation and Recovery Act (RCRA). The rule includes national minimum criteria for existing and new CCR landfills and existing and new CCR surface impoundments. GRU is subject to the requirements of the promulgated rule that are applicable to CCR ponds and landfill at Deerhaven.

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

**Storage Tanks**

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

**Remediation Sites**

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

In the Site-Wide Monitoring Report dated March 24, 2011, measurable free product was detected in four wells. An inspection in April 2013 showed that groundwater contains four of the polynuclear aromatic hydrocarbons ("PAH") (Benzo[a]*anthracene*, Benzo[a]*pyrene*, Benzo[b]*fluoranthene*, and Dibenzo[a,h]*anthracene*) at concentrations greater than their groundwater cleanup target levels ("GCTL"). With the exception of Benzo[a]*pyrene*, the concentration of the remainder of these parameters did not exceed their Natural Attenuation Default Concentrations. The groundwater quality data reported in the 2011 Site-Wide Groundwater Monitoring Report documents that groundwater quality meets applicable

GCTLs at the locations sampled. It is likely that groundwater quality impacts exist in the area where residual number 6 Fuel Oil is present as a non-aqueous phase liquid.

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

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.

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

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

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

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

**Manufactured Gas Plant**

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

**Wholesale and Retail Electric Restructuring**

*Energy Policy Act of 2005*

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

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

- Transmission Owner
- Transmission Operator
- Transmission Planner

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

*FERC Order 779*

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

*FERC Order 1000*

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

Planning element reforms:

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

Cost allocation reforms:

- Each public utility transmission provider must participate in a regional cost sharing allocation method for the selected transmission solution.

- A similar cost allocation is required when neighboring transmission regions select an interregional solution.

- Participant finding is permitted. However, it may not be the regional or interregional allocation schema.

Developer reforms:

- With certain limitations, public utility providers must remove from their tariffs a federal right of first refusal for a regional transmission plan needs solution for the purposes of cost allocation.

- The reliability and service requirements of incumbent transmission providers may be dependent upon regional transmission infrastructure. The order requires the reevaluation of the regional transmission plan and the identification of alternative transmission solutions should the delay in infrastructure development adversely impact system reliability and/or the delivery of required services.

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

**APPENDIX D**

**COPIES OF THE RESOLUTION AND THE TWENTY-FIFTH SUPPLEMENTAL BOND RESOLUTION**

**APPENDIX E**

**DEBT SERVICE REQUIREMENTS**

**APPENDIX F-1**

**APPROVING OPINION OF ORRICK, HERRINGTON & SUTCLIFFE LLP**

**APPENDIX F-2**

**2017 NO ADVERSE EFFECT OPINION OF BOND COUNSEL**

**APPENDIX G**

**FORM OF CONTINUING DISCLOSURE**