

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2014

See "RATINGS" herein

NEW ISSUE – BOOK-ENTRY ONLY

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2014 Series A/B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the 2014 Series A/B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the 2014 Series A/B Bonds. See "TAX MATTERS" herein.

\$ _____ *

City of Gainesville, Florida

Utilities System Revenue Bonds

\$ _____ * \$ _____ *

2014 Series A 2014 Series B

**Dated: Date of Delivery****Due: October 1, as shown on the inside cover page**

The Utilities System Revenue Bonds, 2014 Series A (the "2014 Series A Bonds") and the Utilities System Revenue Bonds, 2014 Series B (the "2014 Series B Bonds" and together with the 2014 Series A Bonds, the "2014 Series A/B Bonds") will be issued as fully registered bonds and, when initially issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2014 Series A/B Bonds. Individual purchases of 2014 Series A/B Bonds will be made in book-entry form only in the principal amount of \$5,000 or any integral multiple thereof. See "BOOK-ENTRY ONLY SYSTEM" in APPENDIX A hereto.

The 2014 Series A Bonds are being issued by the City of Gainesville, Florida (the "City") (a) to pay 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 more particularly described herein and (b) to pay costs of issuance of the 2014 Series A Bonds. The 2014 Series B Bonds are being issued by the City (a) to refund certain of the City's outstanding Utilities System Revenue Bonds more particularly described herein and (b) to pay costs of issuance of the 2014 Series B Bonds.

The 2014 Series A/B Bonds bear interest from their dated date payable each April 1 and October 1, commencing April 1, 2015.

Certain of the 2014 Series A/B Bonds are subject to redemption prior to maturity as described herein.

MATURITY SCHEDULE – See Inside Cover Page

THE 2014 SERIES A/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 2014 SERIES A/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 2014 SERIES A/B BONDS OR THE MAKING OF ANY PAYMENTS UNDER THE RESOLUTION. THE 2014 SERIES A/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 2014 Series A/B Bonds are offered when, as and if issued and received by the Underwriters, subject to approval of legality by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel to the City. Certain legal matters will be passed upon for the City by Nicolle M. Shalley, Esq., City Attorney and by Holland & Knight LLP, Disclosure Counsel to the City, and for the Underwriters by Nixon Peabody, LLP. It is expected that the 2014 Series A/B Bonds in definitive form will be available for delivery to DTC in New York, New York on or about December ____, 2014.

J.P. Morgan**BofA Merrill Lynch****Goldman, Sachs & Co.****BMO****Capital****Markets**

December ____, 2014.

* Preliminary, subject to change.

**MATURITIES, AMOUNTS, INTEREST RATES,
PRICES/YIELDS AND CUSIP NUMBERS[†]**

\$ _____ *

**Utilities System Revenue Bonds,
2014 Series A**

| <u>Maturity (October 1)</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Price/ Yield</u> | <u>CUSIP[†]</u> |
|--|----------------------|---------------------------------|--------------------------------|---------------------------------|
|--|----------------------|---------------------------------|--------------------------------|---------------------------------|

\$ _____ % Term Bond due October 1, 20____ – Yield or Price _____ % – Initial CUSIP No. _____[†]
 \$ _____ % Term Bond due October 1, 20____ – Yield or Price _____ % – Initial CUSIP No. _____[†]

\$ _____ *

**Utilities System Revenue Bonds,
2014 Series B**

| <u>Maturity (October 1)</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Price/ Yield</u> | <u>CUSIP[†]</u> |
|--|----------------------|---------------------------------|--------------------------------|---------------------------------|
|--|----------------------|---------------------------------|--------------------------------|---------------------------------|

[†] CUSIP numbers have been assigned by an organization not affiliated with the City and are included solely for the convenience of the holders of the 2014 Series A/B Bonds. The City is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their correctness in the 2014 Series A/B Bonds or as indicated above.

* Preliminary, subject to change.

RED HERRING LANGUAGE

This Preliminary Official Statement and the information contained herein are subject to change, completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or solicitation of an offer to buy nor shall there be any sale of the 2014 Series A/B Bonds by any person in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. The City has deemed this Preliminary Official Statement "final," except for certain permitted omissions, within the contemplation of Rule 15c2-12 promulgated by the Securities and Exchange Commission.

CITY OF GAINESVILLE, FLORIDA

CITY OFFICIALS

Edward B. Braddy Mayor
Todd Chase Mayor Pro-Tem, Commissioner
Craig Carter Commissioner
Yvonne Hinson-Rawls Commissioner
Lauren Poe Commissioner
Helen K. Warren Commissioner
Randolf M. Wells Commissioner

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

Utilities System

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David E. Beaulieu, P.E. Assistant General Manager – Energy Delivery
Ronald G. Herget, P.E. Interim Assistant General Manager – Water and Wastewater Systems
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David M. Richardson Interim Chief Financial Officer, Utilities
William J. Shepherd Interim Assistant General Manager – Customer Support Services
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CONSULTANTS

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Holland & Knight LLP
Lakeland, Florida
Disclosure Counsel

Public Financial Management, Inc.
Philadelphia, Pennsylvania
Financial Advisor

No dealer, broker, salesman or any other person has been authorized by the City of Gainesville, Florida (the "City") to give any information or to make any representations in connection with the 2014 Series A/B Bonds other than as contained in this Official Statement, and, if given or made, such information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2014 Series A/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, The Depository Trust Company, the Underwriters and other sources which are believed to be reliable.

All summaries herein of documents and agreements are qualified in their entirety by reference to such documents and agreements, and all summaries herein of the 2014 Series A/B Bonds are qualified in their entirety by reference to the form thereof included in the aforesaid documents and agreements.

Any statements in this Official Statement involving estimates, assumptions and matters of opinion, whether or not so expressly stated, are intended as such and not as representations of fact, and the City expressly makes no representation that such estimates, assumptions and opinions will be realized or fulfilled. Any information, estimates, assumptions and matters of opinion contained in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder, shall under any circumstances create any implication that there has been no change in the affairs of the City since the date hereof.

THE 2014 SERIES A/B BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE BOND RESOLUTION BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE 2014 SERIES A/B BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF THE SECURITIES LAWS OF THE STATES, IF ANY, IN WHICH THE 2014 SERIES A/B BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN CERTAIN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE 2014 SERIES A/B BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2014 SERIES A/B BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE 2014 SERIES A/B BONDS TO CERTAIN DEALERS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE OF THIS OFFICIAL STATEMENT, AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

THIS OFFICIAL STATEMENT CONTAINS STATEMENTS WHICH, TO THE EXTENT THEY ARE NOT RECITATIONS OF HISTORICAL FACT, CONSTITUTE "FORWARD-LOOKING STATEMENTS." IN THIS RESPECT, THE WORDS "ESTIMATE," "PROJECT," "ANTICIPATE," "EXPECT," "INTENT," "BELIEVE" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. A NUMBER OF FACTORS AFFECTING THE CITY'S BUSINESS AND FINANCIAL RESULTS COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE STATED IN THE FORWARD-LOOKING STATEMENTS.

THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE A CONTRACT BETWEEN THE CITY OR THE UNDERWRITERS AND ANY ONE OR MORE OF THE OWNERS OF THE 2014 SERIES A/B BONDS. This Official Statement is being provided to prospective purchasers either in bound printed form ("Original Bound Format") or in electronic format on the following websites: WWW.MUNIOS.COM or WWW.EMMA.MSRB.ORG. This Official Statement should be relied upon only if it is in its original bound format or as printed in its entirety directly from such websites.

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Official Statement

relating to

\$ _____ *

City of Gainesville, Florida
Utilities System Revenue Bonds

| | |
|----------------------|----------------------|
| \$ _____ * | \$ _____ * |
| 2014 Series A | 2014 Series B |

INTRODUCTORY STATEMENT

General

This Official Statement, which includes the cover page and inside cover page hereof and the appendices attached hereto, provides certain information in connection with the sale by the City of Gainesville, Florida (the "City") of its (a) \$ _____ * Utilities System Revenue Bonds, 2014 Series A (the "2014 Series A Bonds") and (b) \$ _____ * Utilities System Revenue Bonds, 2014 Series B (the "2014 Series B Bonds" and together with the 2014 Series A Bonds, the "2014 Series A/B Bonds"). Definitive copies of all reports and documents not reproduced in this Official Statement may be obtained from the Utilities Administration Building, Post Office Box 147117, STA. A-138, Gainesville, Florida 32614-7117, Attention: Utilities Attorney.

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 2014 Series A/B Bonds are being issued pursuant to the Utilities System Revenue Bond Resolution adopted by the City on June 6, 1983, as amended, supplemented and restated (the "Resolution"), including as supplemented by the Twenty-Sixth Supplemental Utilities System Revenue Bond Resolution, authorizing the 2014 Series A/B Bonds, adopted by the City on December 4, 2014; Chapter 166, Part II, Florida Statutes; and the Charter. U.S. Bank National Association (formerly First Trust of New York, National Association) currently is Trustee, Paying Agent and Bond Registrar under the Resolution.

The 2014 Series A/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, 2014, there were \$869,570,000 aggregate principal amount of bonds Outstanding under (and as defined in) the Resolution. The 2014 Series A Bonds are being issued by the City to (a) pay 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")) and (b) pay costs of issuance of the 2014 Series A Bonds. See "PLAN OF FINANCE – The 2014 Series A Bonds" herein. The 2014 Series B Bonds are being issued by the City to (a) refund certain of the City's outstanding Utilities System Revenue Bonds more particularly described herein, and (b) pay costs of issuance of the 2014 Series B Bonds. See "PLAN OF FINANCE – The 2014 Series B Bonds" herein.

The 2014 Series A/B Bonds constitute "Bonds" within the meaning of the Resolution. The 2014 Series A/B Bonds, the bonds outstanding on the date of this Official Statement and any additional parity bonds which may be issued in the future are referred to herein collectively as the "Bonds."

* Preliminary, subject to change.

For a more detailed discussion of the City's outstanding debt and its plan of financing and refinancing, see "PLAN OF FINANCE," "OUTSTANDING DEBT" and "ADDITIONAL FINANCING REQUIREMENTS" herein.

In addition to its Outstanding Bonds, as of October 1, 2014, the City also had outstanding \$62,000,000 in aggregate principal amount of its Utilities System Commercial Paper Notes, Series C (the "Series C CP Notes"). The Series C CP Notes are authorized to be issued in an aggregate principal amount outstanding at any time not to exceed \$85,000,000. The City also has authorized the issuance of its Utilities System Commercial Paper Notes, Series D (the "Series D Taxable CP Notes" and, together with the Series C CP Notes, the "CP Notes"), which are authorized to be issued in an aggregate principal amount outstanding at any time not to exceed \$25,000,000. As of October 1, 2014, no Series D Taxable CP Notes were outstanding, however, the City expects to issue up to approximately \$8,000,000 in Series D Taxable CP Notes by December 31, 2014. The CP Notes constitute Subordinated Indebtedness under (and as defined in) the Resolution, and are issued pursuant to the Subordinated Utilities System Revenue Bond Resolution adopted by the City on January 26, 1989, as heretofore amended, supplemented and restated. Subordinated Indebtedness is subordinate in all respects to Bonds issued under the Resolution. See "ADDITIONAL FINANCING REQUIREMENTS" herein.

The Utilities System

For the fiscal year ending September 30, 2014, the electric system, which served an average of 93,719 residential, industrial and commercial customers (representing approximately 77% of the population of the County), accounted for approximately 70.1% of gross revenues and approximately 57.7% of net revenues of the System. The System also owns various transmission and distribution facilities. For the five fiscal years ending September 30, 2014, the System's fuel mix was as follows: coal 60.5%; natural gas 34.4%; nuclear 5.0% (replacement power); and oil 0.1%, as a percentage of net generation. For the fiscal year ending September 30, 2014, the System's fuel mix was as follows: coal 60.6%; natural gas 37.9%; nuclear 1.4% (replacement power) and oil .1%, as a percentage of net generation. The System owns an 11.9 megawatts ("MW") share of the Crystal River 3 nuclear powered electric generating unit ("CR-3") which was operated by Duke Energy Florida, Inc. ("Duke"), formerly known as Progress Energy Florida, Inc. ("PEF"). As described under "THE ELECTRIC SYSTEM – Energy Supply System – *Generating Stations – Crystal River 3 (Retired)*" herein, in September 2009, CR-3 was taken out of service for repairs and PEF provided replacement power to the System through December 31, 2013. In February of 2013 CR-3 was shut down and retired and as of such date, the System has no nuclear facilities. See "THE ELECTRIC SYSTEM – Energy Supply System – *Generating Stations – Crystal River 3 (Retired)*" herein.

The natural gas distribution system, which served an average of 33,780 customers during the fiscal year ending September 30, 2014, accounted for approximately 6.4% of gross revenues and approximately 6% of net revenues of the System and is comprised of 759 miles of plastic, steel and cast iron gas mains. The gas distribution system is served from six delivery points interconnected with facilities of the Florida Gas Transmission Company, LLC ("FGT").

The water system, which served an average of 70,300 customers during the fiscal year ending September 30, 2014, accounted for approximately 8.0% of gross revenues and approximately 13.7% of net revenues of the System. The water system includes a water treatment plant having a nominal capacity of 54 million gallons per day ("Mgd"), water supply wells and distribution facilities.

The wastewater system, which served an average of 63,501 customers during the fiscal year ending September 30, 2014, accounted for approximately 9.5% of gross revenues and approximately 16.1% of net revenues of the System. The wastewater system consists of two major wastewater treatment plants having a combined capacity of 22.4 Mgd annual average daily flow ("AADF"), force mains and gravity wastewater collection sewers.

The telecommunications system ("GRUCom") interconnects four interexchange carriers, two local exchange carriers and six wireless (cellular telephone) carriers and consists of 449 miles of fiber optic cable,

thirteen antenna attachment sites, and associated network equipment. As of September 30, 2014, GRUCom provided broadband data and Internet services to 7,075 residential and commercial customers, as well as public safety radio to all the major public safety agencies in the County. During the fiscal year ending September 30, 2014, GRUCom accounted for approximately 3.1% of gross revenues and approximately 5.2% of net revenues of the System.

Continuing Disclosure

The City has covenanted for the benefit of the owners of the 2014 Series A/B Bonds in a Continuing Disclosure Certificate to comply with certain covenants in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12. See "CONTINUING DISCLOSURE" herein.

Other

Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Resolution, except as otherwise indicated herein. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" in APPENDIX D hereto.

There follows in this Official Statement brief descriptions of the security for the Bonds, the 2014 Series A/B Bonds, the System, the City, the County, the Resolution and certain financial statements. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City or its Financial Advisor.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

- variations in demand for electricity, including those relating to weather, the general economy and recovery from the recent recession, population and business growth (and declines), and the effects of energy conservation measures;
- available sources and costs of fuels;
- effects of inflation;
- ability to control costs and avoid cost overruns during the development and construction of facilities, including those relating to unanticipated conditions encountered during construction, risks of non-performance or delay by contractors and subcontractors and potential contract disputes;
- investment performance of the System's invested funds;
- advances in technology;
- the ability of counterparties of the City to make payments as and when due and to perform as required;
- the direct or indirect effect on the System's business resulting from terrorist incidents and the threat of terrorist incidents, including cyber intrusion;
- interest rate fluctuations and financial market conditions and the results of financing efforts, including the System's credit ratings;
- the impacts of any potential U.S. credit rating downgrade or other sovereign financial issues, including impacts on interest rates, access to capital markets, impacts on currency exchange rates, counterparty performance, and the economy in general;
- the ability of the System to obtain additional generating capacity at competitive prices;
- the ability of the System to dispose of surplus generating capacity at competitive prices;
- the ability of the System to mitigate the cost impacts associated with integrating additional generating capacity into the System's energy supply portfolio;
- catastrophic events such as fires, earthquakes, explosions, floods, hurricanes, droughts, pandemic health events such as influenzas, or other similar occurrences;
- the direct or indirect effects on the System's business resulting from incidents affecting the U.S. electric grid or operation of generating resources;
- the effect of accounting pronouncements issued periodically by standard-setting bodies; and
- other factors discussed elsewhere herein.

The City expressly disclaims any obligation to update any forward-looking statements. Prospective purchasers of the 2014 Series A/B Bonds should make a decision to purchase the 2014 Series A/B Bonds only after reviewing this entire Official Statement and making an independent evaluation of the information contained herein, including the possible effects of the factors described above.

PLAN OF FINANCE

The 2014 Series A Bonds

The 2014 Series A Bonds will be issued (a) to pay costs of acquisition and construction of certain improvements to the System and (b) to pay costs of issuance of the 2014 Series A Bonds. For a discussion of

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

The 2014 Series B Bonds

The 2014 Series B Bonds will be issued to (a) provide a portion of the funds required to advance refund all or a portion of the City's Utilities System Revenue Bonds, 2005 Series A (the "2005A Refunded Bonds") and current refund all or a portion of the City's Utilities System Revenue Bonds, 2008 Series A (Federally Taxable) (the "2008A Refunded Bonds" and together with the 2005A Refunded Bonds, the "Refunded Bonds"), each as listed in the table below and (b) pay costs of issuance of the 2014 Series B Bonds.

| Series⁽¹⁾⁽²⁾ | Maturity (October 1) | Interest Rate | Amount Refunded⁽¹⁾ | Redemption Price (expressed as a percentage of principal amount) |
|--------------------------------|---------------------------------|--------------------------|--|---|
| 2005 Series A | 2029 | 4.75% | \$12,435,000 | 100% |
| 2005 Series A | 2030 | 4.75% | 350,000 | 100% |
| 2005 Series A | 2036 | 4.75% | 345,000 | 100% |
| 2008 Series A | 2015 | 4.820% | 2,120,000 | (2) |
| 2008 Series A | 2016 | 4.920% | 2,160,000 | (2) |
| 2008 Series A | 2017 | 5.020% | 2,160,000 | (2) |
| 2008 Series A | 2020 | 5.270% | 13,475,000 | (2) |

(1) Preliminary, subject to change.

(2) In accordance with the terms of the 2008A Refunded Bonds, the 2008A Refunded Bonds of each maturity are subject to redemption prior to maturity at the election of the City, in whole or in part, on any date, at a "make-whole" redemption price determined in the manner set forth therein, which redemption prices are to be determined on the tenth (10th) day (or, if such day is not a business day, the next preceding business day) preceding such redemption date. On November 19, 2014, the Trustee gave notice of redemption to the holders of the 2008A Refunded Bonds on behalf of the City, calling such Bonds for redemption on December 19, 2014. As permitted by the terms of the Resolution and the 2008A Refunded Bonds, such call for redemption is revocable and is conditioned upon the issuance by the City of the 2014 Series B Bonds on or prior to December 19, 2014. As a result of such call for redemption, the redemption prices of the 2008A Refunded Bonds of each maturity will be determined on December 9, 2014.

A portion of the proceeds of the 2014 Series B Bonds, together with other available funds of the System, will be deposited in the construction fund and used to pay the redemption price on the 2008A Refunded Bonds on the delivery date of the 2014 Series B Bonds. A portion of the proceeds of the 2014 Series B Bonds, together with other available funds of the System, will be deposited with the Trustee pursuant to an Escrow Deposit Agreement (the "Escrow Deposit Agreement") to be entered into, at or prior to the issuance of the 2014 Series B Bonds, between the City and the Trustee. The amounts deposited with the Trustee under the Escrow Deposit Agreement will be invested in direct obligations of the United States of America ("Government Obligations"). The Government Obligations will mature at such times and in such amounts and will bear interest at such rates as will be sufficient, together with any uninvested cash to be held pursuant to the Escrow Deposit Agreement, to pay when due the principal of and interest on the 2005A Refunded Bonds on and prior to December 19, 2014. The Government Obligations and any moneys deposited with the Trustee pursuant to the Escrow Deposit Agreement will be deposited in an irrevocable escrow account established under the Escrow Deposit Agreement (the "Escrow Account") and pledged to secure the payment of the redemption price of and interest on the 2005A Refunded Bonds. Upon such deposit of Government Obligations and any moneys in the Escrow Account and compliance with other provisions of the Resolution, the 2005A Refunded Bonds will be deemed paid and will cease to be entitled to any lien, benefit or security under the Resolution and all covenants, agreements and obligations of the City to the holders of the 2005A Refunded Bonds shall cease, terminate and become void and be discharged and satisfied.

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

when due of the interest on and the redemption price of the 2005A Refunded Bonds will be verified at the time of delivery of the 2014 Series B Bonds by the Verification Agent (as defined herein). See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein.

[In reliance upon the above-referenced schedules and verification, at the time of delivery of the 2014 Series B Bonds, Bond Counsel shall deliver an opinion to the City to the effect that the pledge of the Trust Estate and all covenants, agreements and obligations of the City, to the extent set forth in the Resolution, in favor of the holders of the 2005A Refunded Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.]

The moneys and securities held under the Escrow Deposit Agreement will be used only to pay the 2005A Refunded Bonds and will not be available for payment of debt service on the 2014 Series A/B Bonds. The City may refund all or a portion or none of the Bonds described in the table above and may refund other Bonds not included in such table. The final Official Statement will reflect the Bonds, if any, to be refunded with proceeds of the 2014 Series B Bonds.

SOURCES AND USES OF FUNDS

The sources and uses of funds with respect to the 2014 Series A/B Bonds are estimated to be as follows:

Sources of Funds

| | 2014 Series A Bonds | 2014 Series B Bonds |
|--|--------------------------------|--------------------------------|
| Principal Amount of 2014 Series A/B Bonds | | |
| Plus/Less: Original Issue Premium/Discount | | |
| Amounts Available from Debt Service Account in Debt Service Fund | | |
| Established under the Resolution..... | | |
| Total Sources | | |

Uses of Funds

| | |
|---|--|
| Deposit to Project Fund..... | |
| Payment of costs of issuance, including underwriters' discount..... | |
| Deposit to Escrow Account | |
| Total Uses | |

OUTSTANDING DEBT

The following table sets forth the outstanding debt of the City issued for the System as of October 1, 2014.

Outstanding Debt of the City Issued for the System

| Description | As of October 1, 2014 | | |
|---|--------------------------------|---|--------------------------|
| | Interest Rates | (Unaudited) Due Dates (October 1) | Principal Outstanding |
| Utilities System Revenue Bonds | | | |
| 2005 Series A ⁽¹⁰⁾ | 4.75% | 2029-2036 | \$13,130,000 |
| 2005 Series B (federally taxable)..... | 5.14 – 5.31% ⁽¹⁾⁽²⁾ | 2015-2021 | 24,485,000 |
| 2005 Series C..... | Variable ⁽¹⁾⁽³⁾ | 2026 | 28,265,000 |
| 2006 Series A..... | Variable ⁽¹⁾⁽⁴⁾ | 2026 | 18,410,000 |
| 2007 Series A..... | Variable ⁽¹⁾⁽⁵⁾ | 2036 | 137,565,000 |
| 2008 Series A (federally taxable) ⁽¹⁰⁾ | 4.82 – 5.27% | 2015-2020 | 52,635,000 |
| 2008 Series B..... | Variable ⁽¹⁾⁽⁶⁾ | 2038 | 90,000,000 |
| 2009 Series A (federally taxable)..... | 3.589% | 2015 | 4,110,000 |
| 2009 Series B (federally taxable)..... | 3.589 – 5.655% | 2015-2039 | 156,900,000 |
| 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% | 2015-2034 | 16,365,000 |
| 2012 Series A..... | 2.50 – 5.00% | 2021-2028 | 81,860,000 |
| 2012 Series B..... | Variable ⁽⁷⁾ | 2042 | 100,470,000 |
| Total Utilities System Revenue Bonds | | | <u>\$869,570,000</u> |
| Utilities System Commercial Paper Notes | | | |
| Series C | Variable ⁽¹⁾⁽⁸⁾ | ⁽⁹⁾ | \$ 62,000,000 |
| Total Subordinated Bonds | | | <u>\$ 62,000,000</u> |

(1) See Note 4 to the audited financial statement of the System for the fiscal year ending September 30, 2013 included as APPENDIX B to this Official Statement for a discussion of the various risks borne by the City relating to interest rate swap transactions.

(2) The City has entered into a floating-to-floating rate interest rate swap transaction (the "2005 Series B Swap Transaction") with respect to a pro rata portion of each of the maturities of the 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 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 convert synthetically the interest rate on such pro rata portion of the 2005 Series B Bonds from a taxable rate to a tax-exempt rate. The City has designated the 2005 Series B Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution (see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" and "– Provisions Concerning Qualified Hedging Contracts" in APPENDIX D hereto). 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.

(footnotes continue on following page)

(footnotes continued from preceding page)

- (3) 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 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 fix synthetically the interest rate on the 2005 Series C Bonds at a rate of approximately 3.20% per annum, although the City bears basis risk, which may be positive or negative, between the rate received on the 2005 Series C Swap Transaction and the rate paid on the 2005 Series C Bonds, which could result in a realized rate over time that may be lower or higher than the 3.20% rate payable by the City under the 2005 Series C Swap Transaction. The City has designated the 2005 Series C Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution (see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" and "– Provisions Concerning Qualified Hedging Contracts" in APPENDIX D hereto). 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.
- (4) 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 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 fix synthetically the interest rate on the 2006 Series A Bonds at a rate of approximately 3.224% per annum, although the City bears basis risk, which may be positive or negative, between the rate received on the 2006 Series A Swap Transaction and the rate paid on the 2006 Series A Bonds, which could result in a realized rate over time that may be lower or higher than the 3.224% rate payable by the City under the 2006 Series A Swap Transaction. The City has designated the 2006 Series A Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution (see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" and "– Provisions Concerning Qualified Hedging Contracts" in APPENDIX D hereto). 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 as 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.
- (5) 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 term of the 2007 Series A Swap Transaction is identical to the term of the 2007 Series A Bonds, and the notional amount of the 2007 Series A Swap Transaction will amortize at the same times and in the same amounts as the 2007 Series A Bonds. The 2007 Series A Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the 2007 Series A Swap Transaction, the City will pay to the counterparty a fixed rate of 3.944% per annum and will receive from the counterparty a rate equal to the SIFMA Municipal Swap Index (formerly known as the BMA Municipal Swap Index). The effect of the 2007 Series A Swap Transaction is to fix synthetically the interest rate on the 2007 Series A Bonds at a rate of approximately 3.944% per annum. The City has designated the 2007 Series A Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution (see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" and "– Provisions Concerning Qualified Hedging Contracts" in APPENDIX D hereto).
- (6) The City has entered into two floating-to-fixed rate interest rate swap transactions (the "2008 Series B Swap Transactions") with respect to the Variable Rate Utilities System Revenue Bonds, 2008 Series B (the "2008 Series B Bonds"). The terms of the 2008 Series B Swap Transactions are identical to the term of the 2008 Series B Bonds, and the notional amount of the 2008 Series B Swap Transactions will amortize at the same times and in the same amounts as the 2008 Series B Bonds. The 2008 Series B Swap Transactions are subject to termination by the City or the counterparties at certain times and under certain conditions. During the terms of the 2008 Series B Swap Transactions, the City will pay to the counterparties a fixed rate of 4.229% per annum and will receive from the counterparties a rate equal to the SIFMA Municipal Swap Index (formerly known as the BMA Municipal Swap Index). The effect of the 2008 Series B Swap Transactions is to fix synthetically the interest rate on the 2008 Series B Bonds at a rate of approximately 4.229% per annum. The City has designated each of the 2008 Series B Swap Transactions as a "Qualified Hedging Transaction" within the meaning of the Resolution (see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" and "– Provisions Concerning Qualified Hedging Contracts" in APPENDIX D hereto).
- (7) The interest rates to be borne by 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.
- (8) 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 ("Fitch"), "Baa2" from Moody's and "A-" from S&P. The term of the Series C CP Notes Swap Transaction is identical to the expected final maturity date of the Series C CP Notes, and the notional amount of the Series C CP Notes Swap Transaction will amortize at the same times and in the same amounts as the Series C CP Notes related to the swap are expected to be amortized. The Series C CP Notes Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the Series C CP Notes Swap Transaction, the City will pay to the counterparty a fixed rate of 4.10% per annum and will receive from the counterparty a rate equal to the SIFMA Municipal Swap Index (formerly known as the BMA Municipal Swap Index). The effect of the Series C CP Notes Swap Transaction is to fix synthetically the interest rate on a portion of the Series C CP Notes at a rate of approximately 4.10% per annum. The City has not designated the Series C CP Notes Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution (see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" in

(footnotes continued on following page)

(footnotes continued from preceding page)

APPENDIX D hereto), so all amounts owed by the City under the Series C CP Notes Swap Transaction are payable from amounts remaining on deposit in the Revenue Fund established pursuant to the Resolution following the payment of, among other things, Operation and Maintenance Expenses, debt service on the Bonds, debt service on Subordinated Indebtedness and required deposits to the Utilities Plant Improvement Fund established pursuant to the Resolution.

- (9) 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.
- (10) All or a portion may be refunded with proceeds of 2014 Series B Bonds. See "PLAN OF FINANCE – The 2014 Series B Bonds" herein.

APPENDIX E hereto shows total debt service requirements on all Bonds Outstanding as of October 1, 2014.

ADDITIONAL FINANCING REQUIREMENTS

The System's current seven -year capital improvement program, as shown in the table below, requires a total of approximately \$601,265,000 in capital expenditures and \$3,092,000 for issuance costs between 2015 and 2021, inclusive, for total capital improvement program costs of \$604,357,000. Such amount is expected to be funded in part from remaining construction funds from previous financings, construction fund interest earnings, Revenues, and approximately \$148,600,000 of future additional Bonds and/or Subordinated Indebtedness (including additional commercial paper notes) that the System expects will be issued in fiscal year 2015, 2017 and 2020. The ongoing and planned projects included in the capital improvement program are discussed in further detail herein for the electric, natural gas, water, wastewater and telecommunications systems, respectively.

Summary of Capital Improvement Program⁽¹⁾

| | Fiscal Years ending September 30, | | | | | | | |
|----------------------------|-----------------------------------|---------------------|----------------------|---------------------|---------------------|---------------------|--------------------------------|----------------------|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2015-2021 |
| Cash Balance October 1, | \$38,510,000 | \$35,549,000 | \$1,021,000 | \$32,308,000 | \$17,395,000 | \$586,000 | \$24,031,000 ⁽²⁾ | |
| Source of Funds: | | | | | | | | |
| Bond Financing | 50,600,000 ⁽⁴⁾ | - | 50,850,000 | - | - | 47,150,000 | - | 148,600,000 |
| Revenues | 50,910,000 | 44,747,000 | 50,963,000 | 50,898,000 | 50,877,000 | 49,878,000 | 49,836,000 | 348,109,000 |
| Interest Earnings | <u>717,000</u> | <u>54,000</u> | <u>265,000</u> | <u>542,000</u> | <u>52,000</u> | <u>76,000</u> | <u>52,000</u> | <u>1,758,000</u> |
| Total Sources | <u>\$102,227,000</u> | <u>\$44,801,000</u> | <u>\$102,078,000</u> | <u>\$51,440,000</u> | <u>\$50,929,000</u> | <u>\$97,104,000</u> | <u>\$49,888,000</u> | <u>\$498,467,000</u> |
| Use of Funds: | | | | | | | | |
| Construction Projects: | | | | | | | | |
| Electric | \$58,857,000 | \$44,437,000 | \$33,489,000 | \$31,671,000 | \$34,525,000 | \$29,179,000 | \$35,700,000 | \$298,064,000 |
| Gas | 6,163,000 | 5,856,000 | 5,913,000 | 5,850,000 | 5,735,000 | 5,687,000 | 5,983,000 | 42,606,000 |
| Water | 9,741,000 | 9,864,000 | 10,360,000 | 9,496,000 | 9,191,000 | 10,108,000 | 10,098,000 | 79,228,000 |
| Wastewater | 22,726,000 | 12,755,000 | 13,443,000 | 12,974,000 | 12,770,000 | 22,062,000 | 15,245,000 | 132,981,000 |
| GRUCom | 6,690,000 | 6,418,000 | 6,569,000 | 6,361,000 | 5,516,000 | 5,680,000 | 6,292,000 | 48,387,000 |
| Total Construction | <u>\$104,177,000</u> | <u>\$79,329,000</u> | <u>\$69,774,000</u> | <u>\$66,353,000</u> | <u>\$67,738,000</u> | <u>\$72,716,000</u> | <u>\$73,317,000</u> | <u>\$601,265,000</u> |
| Issuance Costs | <u>1,012,000</u> | <u>-</u> | <u>1,017,000</u> | <u>-</u> | <u>-</u> | <u>943,000</u> | <u>-</u> | <u>3,092,000</u> |
| Total Uses | <u>\$105,189,000</u> | <u>\$79,329,000</u> | <u>\$70,791,000</u> | <u>\$66,353,000</u> | <u>\$67,738,000</u> | <u>\$73,659,000</u> | <u>\$73,317,000</u> | <u>\$604,357,000</u> |
| Cash Balance September 30, | <u>\$35,548,000</u> | <u>\$1,021,000</u> | <u>\$32,308,000</u> | <u>\$17,395,000</u> | <u>\$586,000</u> | <u>\$24,031,000</u> | <u>\$601,000⁽³⁾</u> | |

(1) Totals may not foot due to rounding.

(2) Opening cash balance on October 1, 2014.

(3) Projected closing cash balance on September 30, 2018.

(4) Proceeds of 2014 Series A Bonds together with anticipated issuance of up to approximately \$8,000,000 in Series D Taxable CP Notes by December 31, 2014.

SECURITY FOR THE 2014 SERIES A/B BONDS

Pledge Under the Resolution

All Bonds issued under the Resolution, including the 2014 Series A/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 2014 Series A/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 2014 Series A/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 2014 Series A/B Bonds or the making of any payments under the Resolution. The 2014 Series A/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 2014 Series A/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 "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Rate Covenant" in APPENDIX D hereto.

Additional Bonds; Conditions to Issuance

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

Historical Debt Service Coverage. The issuance of any Series of additional Bonds (except for Refunding Bonds) is conditioned upon the delivery by an Authorized Officer of the City of a certificate to the effect that, for any period of twelve consecutive months within the 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 2014 Series A/B Bonds will not be 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 "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION" in APPENDIX D hereto.

THE 2014 SERIES A/B BONDS

General

The 2014 Series A Bonds will be issued in the aggregate principal amount of \$_____ and the 2014 Series B Bonds will be issued in the aggregate principal amount of \$_____. The 2014 Series A/B Bonds will be dated the date of delivery thereof, will bear interest from their dates of delivery at the rates per annum set forth on the inside cover page of this Official Statement payable on April 1 and October 1 of each year, commencing April 1, 2015, and will mature on October 1 in the years and in the principal amounts set forth on the inside cover page of this Official Statement. The 2014 Series A/B Bonds will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof for each series of each maturity and, when issued, will be initially registered in the name of Cede & Co., as nominee for DTC. See "BOOK-ENTRY ONLY SYSTEM" in APPENDIX A hereto.

Redemption Provisions

Optional Redemption

The 2014 Series A/B Bonds maturing before October 1, 20__ will not be subject to redemption prior to maturity. The 2014 Series A/B Bonds maturing on and after October 1, 20__ will be subject to redemption prior to maturity at the option of the City on and after October 1, 20__ as a whole or in part at any time, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the date of redemption.

If less than all of the 2014 Series A/B Bonds maturing on and after October 1, 20__ are to be so redeemed, the City may select the series and the maturity or maturities to be redeemed. If less than all of the 2014 Series A/B Bonds of any maturity are to be redeemed, the particular 2014 Series A/B Bonds or portions of such Bonds of such maturity shall be selected by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate. The portion of any 2014 Series A/B Bond of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or any integral multiple thereof, and in selecting portions of such Bonds for redemption the Trustee will treat each such Bond as representing that number of such Bonds of \$5,000 denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000.

Notice of Redemption

The Resolution requires the Trustee to give notice of any redemption of the 2014 Series A/B Bonds not less than 30 days nor more than 60 days prior to the redemption date. Notice of redemption will be given by first-class mail to each holder of the 2014 Series A/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 2014 Series A/B Bond will not affect the validity of the proceedings for the redemption of any other 2014 Series A/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 2014 Series A/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 2014 Series A/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 2014 Series A Bonds of a maturity or 2014 Series B Bonds of a maturity are to be redeemed, DTC or its successor and Direct Participants and Indirect Participants will determine the particular ownership interests of such 2014 Series A/B Bonds of such maturity 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 2014 Series A/B Bond of any redemption, will not affect the sufficiency or the validity of the redemption of the 2014 Series A/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 2014 Series A/B Bonds, or that they will do so on a timely basis.

Registration and Transfer; Payment

The 2014 Series A/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 2014 Series A/B Bonds (a) for a period beginning with the applicable Record Date (hereinafter defined) and ending with the next succeeding October 1 or April 1, as applicable, 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 2014 Series A/B Bonds will be paid to the person in whose name such Bond is registered on the applicable Record Date, which is March 15 for interest due on April 1 and September 15 for interest due on October 1. At such time, if any, as the 2014 Series A/B Bonds no longer shall be subject to the book-entry only system of registration and transfer described in APPENDIX A hereto, interest on the 2014 Series A/B Bonds will be payable by check or draft of the Trustee, as Paying Agent, mailed to the registered owners by first-class mail. At such time, if any, as the 2014 Series A/B Bonds no longer shall be subject to such book-entry only system of registration and transfer, the principal of all 2014 Series A/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 2014 Series A/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 2014 Series A/B Bonds is the responsibility of the Direct Participants or the Indirect Participants. See "BOOK-ENTRY ONLY SYSTEM" in APPENDIX A hereto.

THE CITY

General

Gainesville, home of the University of Florida, is located in north-central Florida midway between Florida's Gulf and Atlantic coasts. The City is approximately 125 miles north of Tampa, approximately 110 miles northwest of Orlando and approximately 75 miles southwest of Jacksonville. The Bureau of Economic and Business Research ("BEBR") at the University of Florida estimated a 2014 population of 250,730 in the County. As of April 2014, an estimated 125,661 persons resided within the City limits. The economic base of Gainesville consists primarily of light industrial, commercial, health care and educational activities. The University of Florida is the State's oldest university and, with nearly 50,000 students, is one of the largest universities in the nation.

For additional information with respect to the City and the County, including its defined benefit and other post-employment benefits see APPENDIX C hereto.

Government

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

The following are the current members of the City Commission:

| | Term Expires |
|--|-------------------------|
| Mayor Edward B. Braddy, At-Large | May 2016 |
| Commissioner Todd Chase, District 2, Mayor Pro-Tem | May 2017 |
| Commissioner Craig Carter, District 3 | May 2017 |
| Commissioner Yvonne Hinson-Rawls, District 1 | May 2015 |
| Commissioner Lauren Poe, At-Large | May 2015 |
| Commissioner Helen K. Warren, At-Large | May 2017 |
| Commissioner Randolph M. Wells, District 4 | May 2016 |

* In the 2014 Florida legislative session, Representative Keith Perry filed a bill in the Florida House of Representatives, that if passed, would have provided for a proxy vote by U.S. Mail ballot of the Utility System's account holders to decide whether to establish an independent utility authority to, among other things, own, govern and manage the Utility System and establish a "Ratepayer Advisory Committee" that would submit recommendations to such authority. Although the bill died in session, in response, the City Commission held a series of meetings and workshops during 2014 to discuss Utility System governance. At the Commission's General Policy Committee meeting held on October 21, 2014, the Commission directed staff to draft a proposal for the creation of a citizen rate advisory board that would make recommendations to the Commission on rate-setting and bring the proposal back to the Commission for future discussion and vote.

THE UTILITIES SYSTEM

General

Under its home rule powers and pursuant to the Charter, the City owns and operates the System, which provides the City (including certain utility services to the University of Florida) and certain unincorporated areas of the County with electric, natural gas, water, wastewater, and telecommunications service. 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"), the City of High Springs, Florida ("High Springs") and the City of Hawthorne ("Hawthorne"). All facilities of the System are owned by

the City, and all facilities, except for the City's undivided ownership interest in CR-3, are operated by the City. The System is governed by the City Commission.

The electric system was established in 1912 to provide street lighting and electric service to the downtown area. Continuous expansion of the electric system and its generating capacity has resulted in the electric system serving an average of 93,719 customers in the fiscal year ending September 30, 2014 and having a maximum net summer generating capacity of 532.5 MW.

The natural gas system was acquired from the Gainesville Gas Company in 1990 to provide gas distribution throughout the City. The gas system served an average of 33,780 customers in the fiscal year ending September 30, 2014.

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 70,300 and 63,501 customers, respectively, in the fiscal year ending September 30, 2014. The water system has a nominal capacity of 54 Mgd and the wastewater system has a treatment capacity of 22.4 Mgd AADF.

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

Management of the System

The daily operations of the System are managed by the General Manager for Utilities. An Interim General Manager was appointed in November 2013 while the City conducts a national search for a General Manager. Which search commenced in October 2014. In addition to the General Manager for Utilities, the System's executive team includes four Assistant General Managers, the Chief Financial Officer and the Utilities Attorney. The four Assistant General Managers consist of: Energy Supply; Energy Delivery; Water and Wastewater Systems; and Customer Support Services. It is anticipated that the interim positions below will be filled shortly after a General Manager is selected.

Ms. Kathy E. Viehe, Interim General Manager for Utilities, joined the System as Communications Director in 1996 and became Assistant General Manager for Customer Support Services in 2007. Ms. Viehe has over 28 years of experience in the utility industry, having worked with Jackson Utility Division (Tennessee), Memphis Light, Gas and Water Division (Tennessee) and Ft. Pierce Utilities Authority (Florida). In her role as Interim General Manager, Ms. Viehe 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, she 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. She reports directly to the seven-member City Commission as a Charter Officer. Ms. Viehe currently serves on the Board of Directors for The Energy Authority, Inc. ("TEA"), Colectric Partners, Inc. ("Colectric"), the Florida Reliability Coordinating Council ("FRCC") and the Florida Electric Power Coordinating Group.

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

Mr. Ronald G. Herget, P.E., CGC, CUG, Interim Assistant General Manager – Water and Wastewater Systems, joined the System in December 1980 and administers all aspects of the water and wastewater utilities for the System, including water and wastewater planning and engineering, water treatment, water distribution, wastewater treatment, wastewater collection, operation of lift stations, distribution of reclaimed water and administration of the environmental laboratory, industrial pretreatment and cross connection control programs.

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

Mr. David M. Richardson, Interim Chief Financial Officer, joined the system in January 1986. He was appointed Assistant General Manager of Water and Wastewater Systems in 2005, where he was responsible for construction, operating and maintenance and related planning and engineering of these systems. Mr. Richardson was appointed Interim Chief Financial Officer in September 2013 and oversees the financial affairs of the System and is responsible for budgeting, debt and investment management, accounting and rates and forecasting.

Mr. William J. Shepherd, Interim Assistant General Manager – Customer Support Services, was appointed in November 2014. Mr. Shepherd has been with the System for 20 years. The majority of Mr. Shepherd's career at the System 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. Prior to his interim appointment, Mr. Shepherd was the Director of Customer Operations which is a key group that deals with the daily customer interactions including customer service, cashiers, billing, collections and new services. In this interim role Mr. Shepherd is responsible for customer service, billing, collections, mail services, quality control, facilities, purchasing, cashiers, energy and business services, and new services.

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

Labor Relations

The System presently employs approximately 868 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 590 of the System's employees are represented by Local No. 3170 of the Communications Workers of America (the "CWA"). Agreement was recently reached on new three-year contracts (Non-Supervisory and Supervisory), which extend the City's collective bargaining agreements with the CWA through December 31, 2015.

Permits, Licenses and Approvals

Management believes that all principal permits, licenses and approvals required to construct and operate the System's facilities have been acquired. Management further believes that the System is operating in

compliance in all material respects with all such permits, licenses and approvals and with all applicable federal, state and local regulations, codes, standards and laws.

THE ELECTRIC SYSTEM

Service Area

The System provides retail electric service to consumers in the Gainesville urban area which includes the City and the surrounding unincorporated area. Wholesale electric service currently is provided to one wholesale customer, Alachua. See "Energy Sales – Retail and Wholesale Sales" below. The electric facilities of the System currently serve approximately 124.5 square miles of the County, and approximately 77% of the population of the County, including the entire City, with the exception of the University of Florida campus, which is served principally by 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 extends through 2017 and has been approved by the Florida Public Service Commission (the "FPSC").

Customers

The System has experienced relatively slow growth in customers in recent years, with slight decreases in the fiscal years ending September 30, 2010 and September 30, 2011, as population growth slowed following the 2008 recession. The following tabulation shows the average number of electric customers for the fiscal years ending September 30, 2010 through September 30, 2014.

| | Fiscal Years ending September 30, | | | | |
|--------------------------------|-----------------------------------|--------|--------|--------|--------|
| | 2010 | 2011 | 2012 | 2013 | 2014 |
| Retail Customers (Average): | | | | | |
| Residential | 82,504 | 81,900 | 82,039 | 82,440 | 83,117 |
| Commercial and Industrial..... | 10,424 | 10,372 | 10,423 | 10,467 | 10,602 |
| Total | 92,928 | 92,272 | 92,462 | 92,907 | 93,719 |

Of the 93,719 customers in the fiscal year ending September 30, 2014, 10,602 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, 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. The total resources managed by TEA (including the total capacity owned by TEA equity members and resource management partners) is 29,600 MW. TEA manages a diverse generation portfolio, of which approximately 91% is coal, petroleum coke, nuclear, or hydro power, and the volume of capacity represented has proven advantageous in terms of market presence. TEA's operations include the purchase and sale of power, transmission capacity acquisition and scheduling, natural gas and oil purchase and transportation, and financial trading and hedging under strictly observed risk policies.

Other than for retail load and several pre-existing bi-lateral long-term wholesale power agreements, TEA markets the System's generating resources in real-time, day-ahead, and longer-term power markets up to

twelve months ahead. TEA also purchases all of the System's natural gas and manages the System's gas transportation entitlements. TEA's ability to 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.

GRU 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 GRU and its joint venture members and with the executed guaranties delivered to TEA and to TEA's banks, GRU'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, 2014 and 2013. GRU's aggregate obligation for TEA's natural gas marketing transactions, under similar agreements and executed guaranties, was \$3.7 million and \$13.0 million as of September 30, 2014 and 2013, respectively.

For a discussion of the System's investment in TEA and its commitments to TEA as of September 30, 2013, see Note 14 to the financial statements of the System set forth in APPENDIX B attached hereto. See also "Energy Supply System – Fuel Supply – Natural Gas" below for additional discussion of TEA's role in supplying natural gas for the System.

Retail and Wholesale Sales

In the fiscal year ending September 30, 2014, the System sold 1,832,909 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. "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 ending September 30, 2010 through September 30, 2014. Year-to-year variability is due primarily to the effects of weather on heating and cooling loads. For the fiscal year ending September 30, 2014, there was a 2.63% in residential MWh sales from the fiscal year ending September 30, 2013.

Pursuant to Florida's Interlocal Cooperation Act of 1969, Chapter 163, Florida Statutes, the System entered into an Interlocal Agreement with the City of Winter Park, Florida ("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.

Retail and Wholesale Energy Sales

| | Fiscal Years ending September 30, | | | | |
|---|-----------------------------------|------------------|------------------|------------------|------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 |
| Energy Sales–MWh: | | | | | |
| Residential | 857,436 | 820,584 | 753,513 | 752,131 | 771,884 |
| General Service, Large Power and Other | 993,650 | 966,969 | 945,131 | 937,112 | 941,578 |
| Firm Wholesale ⁽¹⁾ | 216,521 | 206,852 | 193,717 | 130,990 | 119,447 |
| Total | <u>2,067,607</u> | <u>1,994,405</u> | <u>1,892,361</u> | <u>1,820,233</u> | <u>1,832,909</u> |
| Average Annual Use per Customer–kWh: | | | | | |
| Residential | 10,452 | 10,019 | 9,185 | 9,123 | 9,287 |
| General Service, Large Power and Other | 95,700 | 93,229 | 90,686 | 89,530 | 88,811 |

(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.

The System had a wholesale electric service contract with Seminole Electric Cooperative, Inc. ("Seminole") to serve a Clay substation adjacent to the west side of the System's service area, which began in 1975 and expired on December 31, 2012. Seminole entered into a transmission agreement with the System that became effective January 1, 2013 for a term of three years. The expiration of the electric "all requirements" contract resulted in a reduction of the System's non-fuel revenues of approximately \$1,250,000 in the year ended September 30, 2013, taking into account the additional revenues to be realized by the System under the transmission agreement.

The System has had a wholesale contract with Alachua since 1988, which was renewed on January 1, 2011 for a term of ten years. The contract includes management of Alachua's 263 kW (0.032%) share of the No. 2 nuclear unit, as well as compliance responsibilities of the North American Electric Reliability Corporation, Inc. ("NERC"). During fiscal year ending September 30, 2014, the System sold 119,447 MWh to Alachua and received \$9,486,450 in revenues from those sales, which represented approximately 6.5% of total energy sales (excluding interchange sales) and 3.7% of total sales revenues. Pursuant to the System's wholesale contract with Alachua, Alachua has a one-time option to reopen the pricing elements of the wholesale contract five years from July 16, 2010, the effective date of the wholesale contract. Pursuant to the contract, Alachua must notify the system in writing of its intent to reopen the pricing elements of the contract. The written notification requires Alachua to specifically request the new prices, pricing elements or pricing formulas. To date, the System has not been provided written notice requesting the reopening of the contract.

Interchange and Economy Wholesale Sales

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

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

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014⁽²⁾</u> |
|---|-------------|-------------|-------------|-------------|---------------------------|
| Net Revenues | \$1,452 | \$197 | \$(693) | \$123 | \$673 |
| Percent of Total Electric System Net Revenues..... | 1.6% | 0.2% | 0.0% | 0.1% | 0.9% |

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

(2) Unaudited.

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, whereas longer-term contracts are negotiated by the System's staff. The benefits of the System's purchases are passed on to retail and firm wholesale customers by affecting the fuel and purchased power adjustment portion of their rates (see "RATES – Electric System" herein). In the fiscal year ending September 30, 2014, 3.3% of power for retail and wholesale sales was obtained through off-system purchases, allowing customers to benefit from less expensive gas-fired power available for purchase from the market.

Demand-Side Management

Since 1980, the System has employed cost-effective demand-side management ("DSM") programs as one way to meet the energy needs of its retail customers. Currently, it is estimated that over 11% of the System's customers' energy needs have been met by DSM and renewable energy.

DSM program implementations are estimated to have provided 26.1 MW of summer peak reduction cumulative since 2006 and 131,617 MWh in cumulative energy savings through the year 2013. The System has continued its DSM programs as a way to cost-effectively meet customers' needs and hedge against potential future carbon tax and trade programs.

Renewable Energy

Since 2006, renewable energy and carbon management strategies have become a major component of the System's long-term power supply acquisition program and voluntary support by GRU for these programs ended. These renewable resources include additional landfill gas to energy capacity, solar rebates and net metering. The System had the nation's first European-style solar feed-in-tariff (discussed below) to be offered by a utility, and 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. Other aspects of this strategy include carbon offsets from conservation credit, acquisition of development rights for forest land for carbon sequestration (and wetlands protection), and investigations into the use of biomass for power production. See "Future Power Supply" below for more information on the System's renewable energy resources. 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 Stations

The System owns generating facilities having a net summer continuous capability of 532.5 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 635 MW of net dispatchable summer continuous capacity. The System also owns a small share of a retired nuclear generating unit and 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 (MW) |
|--------------------------------|----------------------|-----------------|---------------------|----------------------------|
| Owned Plant Name | Unit No. | Primary | Alternative | |
| J.R. Kelly Station | Steam Unit 8 | Waste Heat | — | 37.00 |
| | Combustion Turbine 4 | Natural Gas | Distillate Fuel Oil | 75.00 |
| Deerhaven Generating Station | Steam Unit 2 | Bituminous Coal | — | 232.00 |
| | Steam Unit 1 | Natural Gas | Residual Fuel Oil | 75.00 |
| | Combustion Turbine 3 | Natural Gas | Distillate Fuel Oil | 75.00 |
| | Combustion Turbine 2 | Natural Gas | Distillate Fuel Oil | 17.50 |
| | Combustion Turbine 1 | Natural Gas | Distillate Fuel Oil | 17.50 |
| South Energy Center | SEC-1 | Natural Gas | — | 3.50 |
| Crystal River | Steam Unit 3 | Nuclear | — | 0.00 (retired) |
| Owned Total | | | | 532.50 |
| Plant Entitlement | GREC | Biomass | — | 102.50 |
| Total Dispatchable | | | | |
| Base Landfill | | Landfill Gas | — | 3.00 |
| Total | | | | 638.00 |

John R. Kelly – The John R. Kelly Station (the "JRK Station") is located in downtown Gainesville. During fiscal year 2013 JRK 7, a steam unit with a net summer capability of 23.2 MW, was retired and JRK

combustion turbine units 1, 2 and 3, with a net summer capability of 42 MW, were retired. The JRK Station now consists of one combined cycle combustion turbine ("CC1") unit with a net summer generation capability of 112 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 GREC has resulted in a forecast of lower capacity factors for CC1 and more off/on cycling going forward. 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.

Deerhaven – The Deehaven Generating Station ("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 417 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 232 MW. Two combustion turbines are rated at 17.5 MW each, with the third at 75 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 ("SO₂"), 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. The scrubber, SCR and fabric filter were placed in service in May 2009 to meet the EPA's Clean Air Interstate Rule ("CAIR") and Clean Air Mercury Rule ("CAMR"). The auxiliary electric loads associated with these controls resulted in a loss of approximately 4.0 MW summer net rating. A steam turbine upgrade in the fall of 2011 resulted in a recovery of this lost capacity and an improved heat rate. During that outage the original burners were replaced with "state-of-the-art" low NO_x burners which reduces the amount of NO_x produced by the boiler, consequently reducing the consumption of urea by the SCR. Additionally, see "FACTORS AFFECTING THE UTILITY INDUSTRY – Air Emissions" herein for a more detailed discussion of the federal Clean Air Act, as amended (the "Clean Air Act"), its impact on the DGS, and certain judicial and regulatory actions affecting CAIR, CATR and CSAPR.

Since 2009, the operational mode of DH 2 has shifted from a high capacity factor base load to a load cycling seasonal 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. 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.

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. Over the period October 1, 2008 through September 30, 2013, DH 2's equivalent forced outage rate was 3.85%, which is comparable to the best in the industry, municipal or investor owned.

Crystal River 3 (Retired) – Crystal River 3 ("CR-3") is a retired nuclear powered electric generating unit formerly with a net summer capability of 838 MW, located on the Gulf of Mexico in Citrus County, Florida, approximately 55 miles southwest of Gainesville. The majority owner is Duke. In February of 2013, Duke

announced that CR-3 would be permanently shut down and retired. The System owns a 1.4079% ownership share of CR-3 equal to 12.102 MW (11.846 MW delivered to the System). Besides its minority ownership position, the System was also entitled to nuclear energy as part of the fuel mix determining the energy price during a five year PPA with PEF for 50 MW, which expired on December 31, 2013. As of September 30, 2013, the System's net investment in CR-3 was approximately \$20.7 million, net of proceeds of \$2.8 million, which was deemed impaired and written off as an extraordinary item during fiscal year 2013. The System and the other minority owners are responsible for their share of any cost associated with retirement of the license ("decommissioning"), spent fuel management and safe storage, and site restoration in excess of the balance in their respective decommissioning funds. Full site restoration was estimated to be approximately 50 years in the future.

In 2012 the minority owners, including the System, agreed to have the Florida Municipal Power Agency ("FMPPA") represent their interests in negotiating a settlement with Duke (then PEF) for damages done due to 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.

FMPPA has negotiated a settlement with Duke on behalf of itself and the other minority owners and purchasers. The settlement was executed by all parties with an effective date of September 26, 2014. The settlement transfers all of the City's ownership interests in CR-3 and the requisite Decommissioning Fund to Duke. The ownership transfer requires approval by the NRC. Upon NRC approval of ownership transfer, the minority owners would receive certain cash settlements and Duke agrees to be responsible for all future costs and liabilities relating to CR-3 including decommissioning costs. The parties have agreed that GRU will receive 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. In October 2014, GRU received reimbursement of \$219,706 in operation and maintenance expenses forgiven by the settlement. See "FACTORS AFFECTING THE UTILITY INDUSTRY – Nuclear Decommissioning" herein.

South Energy Center – The 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 ("Shands") 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 4.3 MW on-site combustion turbine to provide full standby power to the hospital and energy center, as well as a 2.25 MW fast start diesel generator to provide code-complaint 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 2013, the South Energy Center provided 2.7% 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, Shands 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 System is evaluating options for serving the additional load. The capital cost of the options under consideration, some of which may provide benefits to the System beyond the loads immediately served by the SEC, is not to exceed \$28.5 million construction is scheduled to commence on the new hospital and the System's infrastructure in late 2014.

Power Purchase Arrangements

Gainesville Renewable Energy Center – The System has a PPA for all the available energy, delivered energy and environmental attributes from a 102.50 MW biomass fuel generating facility, GREC located on property leased from the System at the Deerhaven Generating Station 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 17th 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 contract. Fuel cost is based on actual with gain sharing when actual is lower than target, which it has been since COD. The VOM charge will escalate according to a consumer price index. The PPA provides liquidated damages for performance below contractual levels of reliability. The PPA is constructed such that there will be no cost to the System, other than reimbursement of ad valorem taxes, if the unit is unavailable. The cost impact is fully reflected in the rates approved by the City of Gainesville City Commission effective October 1, 2013 and in rate forecasts for subsequent years.

GREC is a merchant power plant within the System's NERC Balancing Authority. This imposes regulatory responsibilities on both GREC 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 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 SO₂ or mercury. GREC is currently operating under the Construction Permit which expires on December 31, 2014. All required air emissions testing has been completed and GREC has submitted the application to receive their Title V Operating Air Emissions Permit. **[GREC advises they expect to receive the permit in November 2014.]** **[Confirm]** During pre-commercial testing, GREC received complaints regarding noise, dust and odor. Local and State agencies investigated the complaints. Although no citation was issued by any agency, GREC implemented engineering solutions. It appears that the solutions have sufficiently mitigated the issues.

Pursuant to the PPA with GREC, GREC may not sell the facility, either directly or indirectly through a change of control of GREC during the term of the PPA unless GREC has complied with the following: prior to selling the Facility, GREC must give notice to GRU of GREC's intent to sell the Facility and GRU has 60 days from such notice to prepare an offer (the "First Offer") to purchase the Facility. GREC must negotiate in good faith exclusively with GRU for a minimum of 30 days from receipt of the First Offer to attempt to reach agreement on the terms of a purchase. If GRU and GREC cannot reach an agreement on sale terms within the 30 days of receipt of the First Offer then GREC must have 360 days from the date of GRU delivering the First Offer to close on a sale of the GREC facility 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 First Offer.

Baseline Landfill – The System entered into a fifteen-year contract for the entire output of electricity to be generated from landfill gas derived from the Baseline Landfill in Marion County, Florida. Construction of the facility was completed and the facility was placed in service in December 2008. The landfill is actively expanding and additional capacity is projected for the future. Power from the Baseline Landfill is wheeled to the System over 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. In fiscal year ending September 30, 2014, net energy for load ("NEL") was served as follows: coal 36.7%; biomass 22.9%; natural gas 22.9%; landfill gas 1.4% and oil less than 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 Utilities.

Coal – The System currently has a long-term transportation contract for coal transportation with CSX Transportation that extends through 2019, and owns a fleet of 116 aluminum rapid-discharge rail cars that are in continuous operation between the DGS and the coal supply regions. Coal inventory at the DGS is normally maintained at approximately 40-50 day supply, based on projected burn, anticipated disruptions in coal supply or rail transportation, or short-term market pricing fluctuations. The System's coal procurement considers both short 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 long-term (one to three years) contracts and the remainder under short-term (one year or less) contracts. Effective October 2014, the City Commission instituted a policy prohibiting the procurement of coal from mountain top removal (MTR) source unless a 5% savings over deep mined coal is achieved by doing so. The System issued a Request for Proposals for coal and is considering both short term contracts and contract terms up to 2 years. 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 FGT under long-term contracts for daily firm pipeline transport capacity. The contracts are priced under transportation tariffs filed with FERC. The System's natural gas supplies are transported from Gulf Coast producing regions in Texas, Louisiana, Mississippi and Alabama. Natural gas volumes greater than the System's firm transportation contract entitlements are supplied either through interruptible transportation capacity or through the use of excess delivered capacity from other suppliers on FGT, as arranged by TEA which has combined purchasing power to ensure capacity. For the fiscal year ending September 30, 2014, the System consumed 4,588,790 million British thermal units ("MMBtu's") of natural gas in electric generation and 2,074,291 MMBtu's for the electric distribution system. The average cost of gas delivered to the System in the fiscal year ending September 30, 2014, was \$5.02/MMBtu. The System analyzes, investigates, and participates in opportunities to hedge its natural gas requirements as well as provide greater reliability of supply and transportation for customers. These opportunities include pipeline tariff discussions and negotiations, review of potential liquefied natural gas projects and supply offers, review of potential long-term purchases, natural gas supply baseload contracts, and the purchase and sale of financial NYMEX commodity contracts and options. TEA is a market participant that provides comprehensive energy trading, analysis, strategies and recommendations to the System's Risk Oversight Committee ("ROC"). TEA is responsible for procurement of daily physical volumes and management of pipeline transportation entitlements, as well as the execution of financial hedging transactions on the System's behalf. ROC provides direction and oversight on hedging to TEA. See "Energy Sales – *The Energy Authority*" above.

Oil – 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 the fiscal year ending September 30, 2014, fuel oil accounted for less than .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 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 (1) interconnection to FPL's Hampton Substation at 138kV. A new transmission switching station (Hague) has been 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 the most extreme conditions. Such a planning scenario includes the assumption that the System's three largest generating units (comprising nearly 65% of the System's total generating capacity) are out of service simultaneously.

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 territory.

The System is a member of the Florida Reliability Coordinating Council ("FRCC"), which is a region of NERC and consists of virtually all of the electric utilities in Peninsular Florida. As a member of FRCC, the System participates in sharing reserves for reliability purposes with other generating utilities in Florida, resulting in a substantial reduction in the amount of reserves required for proper operation and reliability.

Electrical Distribution

All of the System's distribution substations are served from the 138 kV transmission 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. The System currently has six loop-fed substations and four radial-fed substations, all powering the 12.47 kV distribution system. 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 automated trouble system that allows customer calls to be linked to specific devices to enhance and expedite service restoration. The integrated GIS is also used extensively in assigning loads to specific circuits, planning distribution and substation system improvements, and supporting restoration efforts resulting from extreme weather damage. 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 \$232,158,000 in capital expenditures between fiscal years ending September 30, 2015 through 2020. 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 2015 budget process. The SEC expansion at Shands is included in the 2015 budget and is anticipated to cost no more than \$28.5 million in capital through completion in 2017.

Electric Capital Improvement Program

| | Fiscal Years ending September 30, | | | | | | Total |
|------------------------------------|-----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | |
| | (dollars in thousands) | | | | | | |
| Generation and Control..... | \$37,956 | \$25,561 | \$11,953 | \$12,664 | \$12,662 | \$6,144 | \$106,940 |
| Transmission and Distribution..... | 10,542 | 11,009 | 12,891 | 13,795 | 13,127 | 14,850 | 76,214 |
| Miscellaneous and Contingency .. | 10,359 | 7,867 | 8,644 | 5,213 | 8,736 | 8,185 | 49,004 |
| Total | <u>\$58,857</u> | <u>\$44,437</u> | <u>\$33,488</u> | <u>\$31,672</u> | <u>\$34,525</u> | <u>\$29,179</u> | <u>\$232,158</u> |

Loads and Resources

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

| Fiscal Year | Net Summer System Capability (MW) ⁽¹⁾ | Firm Interchange Sales (MW) | Peak Load (MW) ⁽²⁾ | Actual / Projected Planning Reserve Margin | |
|-------------|--|--------------------------------------|-------------------------------------|---|---------|
| | | | | MW | Percent |
| Historical | | | | | |
| 2007..... | 611 | 0 | 481 | 130 | 27 |
| 2008..... | 659 | 0 | 457 | 202 | 44 |
| 2009..... | 709 | 0 | 465 | 244 | 52 |
| 2010..... | 710 | 0 | 470 | 240 | 51 |
| 2011..... | 663 | 0 | 445 | 218 | 49 |
| 2012..... | 667 | 0 | 415 | 252 | 61 |
| 2013..... | 657 | 0 | 416 | 241 | 58 |
| 2014..... | 645 | 0 | 409 | 236 | 58 |
| Projected | | | | | |
| 2015..... | 645 | 0 | 417 | 228 | 56 |
| 2016..... | 645 | 0 | 422 | 223 | 54 |
| 2017..... | 645 | 0 | 427 | 218 | 52 |
| 2018..... | 645 | 0 | 431 | 214 | 50 |
| 2019..... | 645 | 0 | 434 | 211 | 49 |

(1) Based upon summer ratings. Auxiliary loads associated with additional emission control equipment on Deerhaven 2 reduced capacity by 4 MW in 2009. An upgrade of the Deerhaven 2 steam turbine increased net summer capability to 232 MW. 3 MW of capacity from the Baseline Landfill was added in 2008, and 4.1 MW from the South Energy Center was added in 2009, which was later revised as 3.5 MW. Three 0.64 MW landfill gas to energy units were retired in 2009, a purchase of 50 MW of firm baseload capacity ending December 31, 2013 began in 2008 and another purchase of 25 MW year round, 50 MW summer of firm baseload capacity began in 2009 and ended December 31, 2010. Imported firm capacity has been adjusted for losses in the table above. Additional resources include 4 MW per year solar beginning in 2009, 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 in 2014 or 2015 and no additional capacity is assumed for 2016-2018 in these values. 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 seven other consumer-owned generating utilities in north central Florida and Georgia. Participating with the System in this agreement are FMPA, JEA, Lakeland Electric, Orlando Utilities Commission, the City of Tallahassee, 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 expires in November 2017. The System has provided aid under this Agreement, but has never requested aid pursuant to this Agreement.

Future Power Supply

General

Forecasts of load growth indicate that existing generating resources will be adequate through 2027 to maintain a 15% generation planning reserve margin. This is later than previous studies had indicated due to the incorporation of additional DSM measures, the institution of the solar FIT, the addition of the South Energy Center and the Baseline Landfill purchase, and more conservative customer growth and sales forecasts. Management's strategy to maintain competitive power costs is to maintain the System's status as a self-generating electric utility with a diverse fuel supply that is enhanced with an advantageous PPA portfolio and meets all environmental standards and expectations of the local community. The ability to be self-generating has proven itself to be a powerful hedge against market volatility while maximizing reliability for native load. Important aspects of this strategy are the management of potentially stranded costs, maintenance of adequate transmission capacity, use of financial as well as physical techniques to hedge fuel costs, and long-term management of pipeline and rail transportation contracts and capacity.

The Planning Process

The System is commencing a long range planning process to support this strategy. Data on fuel price forecasts, construction and operation costs for generation technologies, assessments of renewable resources, emerging regulatory trends, measurement and verification of the effects of DSM programs, opportunities in the community and surrounding area, and extensive interaction with the public and elected officials inform this process. This is responsive not only to community concerns regarding climate change, but in anticipation of forthcoming renewable portfolio standards and carbon regulations. The current plan which includes energy efficiency and customer DSM (including incentives for natural gas appliance switching), the solar FIT, and the PPA with GREC will be sufficient to allow the System to meet any of the Renewable Portfolio Standards or Clean Portfolio Standards ("RPS") that have been proposed to date at the state or federal level.

Renewable Energy Strategy

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

The System conducted a carbon inventory in 2006 to establish a baseline rate of carbon emissions and to establish carbon targets in accordance with the Kyoto Protocol, providing a target date of 2014 for the System, rather than the 2012 United States target. Voluntary carbon offset credits have been created by the System's purchase of forest management rights for well field protection, re-powering of the JRK 8 into a combined cycle unit in 2001, replacing electric water heating with natural gas and other conservation programs, the South Energy

Center, landfill gas to energy projects, and the purchase of environmental attributes from Photovoltaic ("PV") systems, among other projects. None of these projects were undertaken strictly to offset carbon emissions but were justified on their need to cost-effectively meet other objectives. In March 2007, the City Commission reviewed the results of numerous planning studies and public workshops and the results of a series of market solicitations for additional resources. With the production tax credits for renewable energy, trends in interest rates, the value of depreciation tax credits, and the willingness for major financial interests to assume risks for new technologies, the conventional assumption that "self build" options of conventional technologies are always the least cost was no longer the case for renewable energy. It was also apparent that biomass, which is relatively abundant in the area, had the potential to provide an economic source of power. In view of the community's concerns about climate change, indications of the intent of the state and federal governments to impose renewable portfolio standards and carbon constraints, and the volatility of natural gas prices, the System's staff was instructed to pursue options not involving fossil fuels as a primary fuel source and to pursue a potentially favorable purchased power proposal obtained as part of the solicitation. With the actions taken to date, as described above, and the increased use of natural gas in place of coal, and the economic recession which reduced demand for electricity, the System met the voluntary "Kyoto" goal by the end of 2012. Meeting this goal mitigates future risks associated with potential renewable portfolio standards, fuel price volatility, and carbon constraints. Due to the completion of the biomass project described below, the System will be able to exceed the Kyoto Protocol's target GHG emission rate in the future. See "FACTORS AFFECTING THE UTILITY INDUSTRY – Climate Change" herein.

Solar Feed-In-Tariff

The System became the first utility in the nation to adopt a European-style solar feed-in-tariff ("FIT") in March 2009. Under this tariff, the System agrees to buy 100% of the electricity produced by a PV solar system, which is delivered directly to the System's distribution system. What distinguishes a European-style FIT from any other FIT are the following three factors: (a) the price paid per kWh is designed to allow the owner/operator to earn a profit (the System applied a 5% internal rate of return after taxes to a reference system design); (b) the tariff is fixed over a sufficient period of time by a contract that is designed to promote investment (the System's Tariff provides a twenty-year fixed price purchase power agreement); and (c) the tariff differentiates between different types of projects in terms of the price paid (in the case of the System, there are different tariff rates for building/pavement mount and green field ground mount systems). FIT's can be applied to any form of renewable energy, but the System has chosen to focus on solar due to its widespread availability in the service area. The System acquires all the environmental attributes of the solar energy purchased under the FIT, such as renewable energy credits and carbon offsets. In order to manage the effect of the FIT on the System's purchased power cost, a stop loss criteria of no more than 4 MW per year of solar capacity was instituted. As of October 1, 2013, approximately 16 MW of solar PV capacity has been installed pursuant to the System's FIT, rebate, and net metering programs. The City Commission unfunded the solar FIT program for new agreements for calendar years 2014 and 2015 due to upward rate pressure in the System's electric rates. Beyond calendar year 2015, it is unknown if the City Commission will fund new agreements under the solar FIT program but continues to honor existing agreements.

THE NATURAL GAS SYSTEM

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

Service Area

The natural gas system services customers within the City limits and in the surrounding unincorporated area. The natural gas system covers approximately 115 square miles and provides service to 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 and Alachua currently has an option to purchase the distribution system in Alachua from the City. The Alachua City Commission has directed their staff to study the feasibility of buying the distribution facilities within Alachua's corporate limits from the System, although Alachua has not initiated negotiations with the System to date. The terms and conditions of the expired franchise remain in effect until such time as a new franchise is negotiated or until a satisfactory buy-out agreement is reached. Service has continued uninterrupted and the customer base continues to expand in that community. Services provided to Alachua represents approximately 5% of total gas sales of the System. The System recently entered into franchise agreements to provide natural gas to the City of Archer ("Archer") and Hawthorne. 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 ending September 30, 2010 through September 30, 2014. Over 90% of new single family developments in the Gainesville urban area have been connected to the System over this period.

| | Fiscal Years ending September 30, | | | | |
|--------------------------|-----------------------------------|--------|--------|--------|--------|
| | 2010 | 2011 | 2012 | 2013 | 2014 |
| Customers (Average)..... | 33,202 | 33,208 | 33,264 | 33,465 | 33,780 |

The composition of the System's natural gas customers is predominantly residential. Commercial and industrial customers comprised approximately 4.8% of the 33,780 average customers served in the fiscal year ending September 30, 2014, while approximately 95.2% were residential customers.

Natural Gas Supply

Natural gas is procured and delivered in much the same manner as for the System's electric generation operations. TEA purchases commodity, handles pipeline capacity entitlements, and executes physical and financial hedging strategies on behalf of the System as it does for electric operations. The non-coincident occurrences of electric system and gas retail distribution ("LDC") system peak demands provide opportunities to switch electric fuels to free up pipeline capacity for the LDC and/or manage pipeline entitlements to enhance the reliability and cost performance of the gas system. The average cost of gas delivered to the System for the natural gas distribution system in the fiscal year ending September 30, 2014 was \$5.28/MMBtu. Fuel costs for the natural gas system differ from those of the electric system only in that the gas system has no fuel switching capability and must carry sufficient pipeline reserve capacity to meet peak demands, resulting in higher delivered fuel costs.

Natural Gas Distribution

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

Manufactured Gas Plant

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

The remediation costs incurred through [September 30, 2013], total \$27.3 million and the System estimates that total project costs will be approximately \$28.0 million. The remaining cost is included in the natural gas capital improvement program. These costs are subject to increases related to rising fuel prices, the discovery of additional soil or groundwater impacts, or changes in cleanup standards. To date, the System has recovered \$3.3 million from past insurance policies and after recognizing collection fees paid, a net recovery of \$2.2 million has been realized, which will directly reduce the amount to be recovered through customer billings. In the fiscal year ending September 30, 2003, the System implemented a cost recovery factor to fund the remediation. This factor has been applied to retail customers' bills since that time and is subject to change depending on future cleanup costs.

In July of 2014, the utility was awarded a Voluntary Cleanup Tax Credit ("VCTC") in the amount of \$500,000. VCTC's are awarded by the Florida Department of Environmental Protection to participants who conduct voluntary cleanup of designated Brownfield Sites. The credits are valid against Florida corporate income tax. Public entities, such as GRU, are able to market VCTC's to corporate entities. Proceeds from the sale of VCTC's are used to reduce the amount to be recovered through the cost recovery factor applied to gas system customers.

Capital Improvement Program

The System's current six-year natural gas capital improvement program requires approximately \$35,204,000 in capital expenditures between the fiscal years ending September 30, 2015 through 2020. A breakdown of the categories included in the six-year capital improvement program is outlined below.

Gas Capital Improvement Program

| | Fiscal Years ending September 30, | | | | | | |
|--------------------------------------|-----------------------------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
| | (dollars in thousands) | | | | | | |
| Distribution Mains | \$1,892 | \$2,125 | \$2,433 | \$2,741 | \$2,917 | \$2,837 | \$14,945 |
| Meters, Services and Regulators..... | 2,679 | 2,696 | 2,424 | 2,598 | 2,281 | 2,288 | 14,966 |
| Miscellaneous and Contingency | 1,591 | 1,035 | 1,056 | 512 | 537 | 562 | 5,293 |
| Total..... | <u>\$6,162</u> | <u>\$5,856</u> | <u>\$5,913</u> | <u>\$5,851</u> | <u>\$5,735</u> | <u>\$5,687</u> | <u>\$35,204</u> |

THE WATER SYSTEM

The water system currently includes 1,130 miles of water transmission and distribution lines throughout the Gainesville urban area, sixteen water supply wells located in a protected well field, and one treatment plant (the "Murphree Plant") possessing a rated peak day capacity of 54 Mgd. Treatment processes include lime-softening, recarbonation, filtration, chlorination and fluoridation. The Murphree Plant's design allows for

expansion to at least 60 Mgd of capacity at the plant site without interruption of treatment or service. The 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 72% of the County's total population. The University of Florida and a small residential development in Alachua are the only wholesale sales customers. All other customers are served under either the water system's residential inverted block rate or the general service category.

Customers

The System has experienced a slight increase in customers in recent years as population growth, the most significant factor in customer growth, has slowly begun to improve from weak economic conditions. The System has extension policies for providing water supply services to new developments with connection fees, appropriately designed to assure that new customers do not impose rate pressure on existing customers. The following tabulation shows the average number of water customers for the fiscal years ending September 30, 2010 through 2014.

| | Fiscal Years ending September 30, | | | | |
|--------------------------|-----------------------------------|--------|--------|--------|--------|
| | 2010 | 2011 | 2012 | 2013 | 2014 |
| Customers (Average)..... | 68,819 | 68,952 | 69,329 | 69,847 | 70,300 |

Most of the System's individual water customers are residential. Commercial and industrial customers comprised approximately 8.7% of the 70,300 average customers in the fiscal year ending September 30, 2014, and 61% of all water sales revenues were from residential customers.

Water Treatment and Supply

Gainesville's water supply is groundwater obtained from a well field tapping into a confined portion of the Floridan aquifer. Groundwater is treated at the Murphree Plant prior to distribution and eventual use. Water treatment and supply facilities are planned based on the need to provide reserve capacity under extreme conditions of extended drought, with attendant maximum demands for water and lowered aquifer water levels. Under these design conditions, current water treatment and supply facilities are adequate through at least 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 the addition of two additional filter cells to provide additional treatment capacity.

Raw water requirements for the water system are supplied by sixteen deep wells drilled into the Floridan aquifer. Vertical turbine pumps raise the water and deliver it to the Murphree Plant for treatment. In 2000, the System, along with the local water management districts, purchased a conservation easement over 7,000 acres of silvicultural property immediately to the north and northwest of the Murphree Plant. The conservation

easement provides protection to the System's sixteen existing wells and will accommodate the construction of additional wells. Existing and future wells within the conservation easement are anticipated to yield a minimum of 60 Mgd of water supply to match the long-term future treatment capacity of the Murphree Plant site.

The System's groundwater withdrawals are permitted through the St. Johns River Water Management District ("SJRWMD") and Suwannee River Water Management District ("SRWMD"). The SJRWMD and the SRWMD are currently engaged in developing a 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 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, which was declared a superfund site in 1983, 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 site is contaminated from past wood treating facility and charcoal production facilities owned by corporations unrelated to the System. The Environmental Protection Agency placed the site on the National Priorities List in 1984 because of contaminated soil and ground water resulting from facility operations. The presence of protective geologic confining layers over the aquifer has greatly impeded the migration of contamination. However, measures are needed to contain the contamination and clean up the site to ensure that the System's water supply is protected. Although the System is not a potentially responsible party ("PRP") for this site, it has been and intends to continue being highly proactive in protecting Gainesville's water supply. The System has actively participated as a stakeholder working with the EPA and the PRPs for the site (Beazer East, Inc. and Cabot Corporation) to develop remediation plans. The System has assembled a team of experts in the groundwater contamination field to assist and advise the System, and to assist the System in interacting with the EPA and the PRPs to ensure that the appropriate steps are taken. The System regularly tests both the raw and finished water at the well field and there has been no trace of contamination. Based on the System's request, an extensive Floridan aquifer groundwater monitoring network has been constructed at the Koppers portion of the site and is routinely monitored.

In February 2011, the EPA issued a Record of Decision ("ROD") for the Koppers (a previous owner) portion of the site which includes a number of technologies to manage contamination at the site. The ROD includes a multiple barrier approach for containing contamination at 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 the PRP for this 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 does not have a material adverse effect on the System or its financial condition. The System and its expert consultants are continuing to be highly engaged in the design and implementation of the cleanup site.

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

Transmission and Distribution

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

Capital Improvement Program

The System's current six-year water capital improvement program requires approximately \$58,793,000 in capital expenditures between fiscal years ending September 30, 2015 through 2020. A breakdown of the categories included in the six-year capital improvement program is outlined below.

Water Capital Improvement Program

| | Fiscal Years ending September 30, | | | | | | Total |
|-------------------------------------|-----------------------------------|---------|----------|---------|---------|----------|----------|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | |
| | (dollars in thousands) | | | | | | |
| Plant Improvements | \$2,287 | \$4,133 | \$4,957 | \$3,378 | \$4,095 | \$2,092 | \$20,942 |
| Transmission and Distribution | 5,490 | 4,245 | 3,886 | 5,035 | 3,984 | 6,917 | 29,557 |
| Miscellaneous and Contingency | 1,965 | 1,516 | 1,518 | 1,083 | 1,112 | 1,100 | 8,294 |
| Total | \$9,742 | \$9,874 | \$10,361 | \$9,496 | \$9,191 | \$10,109 | \$58,793 |

THE WASTEWATER SYSTEM

The wastewater system serves most of the Gainesville urban area and consists of 629 miles of gravity sewer collection system, 165 pump stations with 139 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 via 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 for providing wastewater facilities and service to new customers are in place with connection fees appropriately designed to protect existing customers from rate pressure that would result from adding new customers. Comprehensive land use plans for the Gainesville urban area mandate connection of new construction to the wastewater system for all but very low density residential developments. Much of the wastewater system's growth is in areas served by Clay for electricity 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 a slight increase in customers in recent years as population growth, the most significant factor in customer growth, has slowly begun to improve from weak economic conditions. The following tabulation shows the average number of wastewater customers, including reclaimed water customers, for the fiscal years ending September 30, 2010 through 2014.

| | Fiscal Years ending September 30, | | | | |
|--------------------------|-----------------------------------|--------|--------|--------|--------|
| | 2010 | 2011 | 2012 | 2013 | 2014 |
| Customers (Average)..... | 61,999 | 62,164 | 62,536 | 63,001 | 63,501 |

The composition of the System's wastewater customers is predominantly residential. Commercial and industrial customers comprised approximately 6.8% of the 63,501 average customers in the fiscal year ending September 30, 2014, and residential customers were the source of 68.4% of all the wastewater system's revenues in the fiscal year ending September 30, 2014.

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 included effluent filtration, gravity belt sludge thickeners, and major improvements to plant headworks to control odors and improve plant reliability. Existing sludge treatment facilities are adequate to meet current federal sludge regulations. Effluent from the 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 in March 2015. The System applied for renewal of the NPDES permit in September 2014 and expects approval prior to March 2015.

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 Stations – South Energy Center" herein. This line also provides reclaimed water for pond augmentation and future irrigation at the MGP remediation site (see "THE NATURAL GAS SYSTEM – Manufactured Gas Plant" herein). The line will also provide reclaimed water 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. The System will achieve its TMDL limits by implementing a cooperative

environmental restoration project known as the Paynes Prairie Sheetflow Restoration project. The combination of the project and the reclaimed water distribution (described above) will allow the System to beneficially reuse 100% of the MSWRF effluent. The MSWRF NPDES permit requires the implementation of the project by 2019 to comply with the TMDL requirements. Construction of the project is anticipated to be substantially complete in early 2015. The EPA promulgated the Numeric Nutrient Criteria Inland Rule in 2010. However, FDEP developed its own numeric nutrient criteria rule which has been approved by the EPA. The EPA withdrew its Inland Rule on September 17, 2014, making the FDEP Numeric Nutrient Criteria Rule effective as of that date. The System has been actively engaged with both the EPA and the State to ensure that the project will meet the requirements of the rule. The rule will require the establishment of site specific criteria. The System is currently working with the FDEP to perform the required studies to establish site specific criteria to meet the rule.

During 2013, the MSWRF produced a total of 1,033 dry tons ("dt") of biosolids and the KWRF produced a total of 2,539 dt of biosolids, all of which were beneficially used at a local farm. At both plants, waste activated sludge is generated by the water reclamation processes, and aerobically digested to produce biosolids, which are thickened by gravity belt thickeners. Currently, and for approximately the past 30 years, all biosolids produced at both plants are trucked to a privately-owned agricultural land application site located in an unincorporated area of the County, where they are beneficially recycled through sustainable land application practices. The biosolids are utilized in place of or to supplement inorganic fertilizer used to grow a variety of forage crops, and land-applied by either surface spreading or by subsurface injection. However, the County and the System have agreed that the System's land application of Class B biosolids must be terminated by February 21, 2016. As a result, the System has been investigating other methods of cost-effective beneficial recycling or disposal, and it has been considering many different alternatives.

While the System has not yet selected a particular future biosolids handling option to be employed following February 21, 2016, the preferred methods all include dewatering. It is expected that the preferred alternative will be selected by early-2015, which will enable all required facilities to be constructed, if necessary, and placed in service by February 21, 2016. The System has estimated that the capital expenditures necessary to implement the dewatering facilities and other associated improvements will total approximately \$23 million during the period between the fiscal years ending September 30, 2013 and September 30, 2020, and such amounts have been included in Management's projected six-year capital improvement program described herein (see "Capital Improvement Program" below). It also is anticipated that the System's operating expenses will increase as a result of the use of an alternative method for reuse/disposal of biosolids. However, since the particular alternative reuse/disposal method to be utilized has not yet been determined, the System is unable to estimate the magnitude of such increase at this time.

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 plant has two distinct treatment processes incorporated into its design: a modified Ludzack-Ettinger Treatment process and a carousel advanced wastewater treatment activated sludge system. The treatment process concludes with filtration and chlorination prior to discharge into aquifer recharge wells and a reclaimed water distribution system. The System consistently meets the required primary and secondary drinking water standards for discharge to recharge wells as set forth in its NPDES permit.

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

The System delivered approximately **[2.3 Mgd AADF]** of reclaimed water in the fiscal year ending **[September 30, 2013]**. The regional water management districts encourage the use of reclaimed water to reduce demands on groundwater. The FDEP encourages reuse as an environmentally appropriate means of effluent disposal.

Wastewater Collection

The wastewater gravity collection system consists of 14,991 manholes with 629 miles of gravity sewer, 50% of which consists of vitrified clay pipe. New facilities under 12 inches in diameter are primarily constructed of PVC pipe, and new facilities 12 inches in diameter and over are primarily constructed of ductile iron pipe. The System maintains three television sealing and inspection units which are routinely employed in inspecting new additions to the System to ensure they meet 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 165 pump stations and over 139 miles of pipe. Existing lines under 12 inches in diameter are generally constructed of PVC pipe and existing lines 12 inches in diameter and over are generally constructed of ductile iron pipe. For new construction, force mains 16 inches and smaller are generally constructed of PVC with larger force mains constructed of ductile iron or high density polyethylene. The System has instituted a preventative maintenance program to assure long life and efficiency at all pumping stations.

Capital Improvement Program

The System's current six-year wastewater capital improvement program requires approximately \$96,730,000 in capital expenditures between the fiscal years ending September 30, 2015 through 2020. 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 2015 budget process.

Wastewater Capital Improvement Program

| | Fiscal Years ending September 30, | | | | | | Total |
|-------------------------------------|-----------------------------------|----------|----------|----------|----------|----------|----------|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | |
| | (dollars in thousands) | | | | | | |
| Plant Improvements..... | \$15,224 | \$6,027 | \$4,106 | \$4,550 | \$4,356 | \$6,446 | \$40,709 |
| Reclaimed Water | 817 | 342 | 451 | 457 | 461 | 5,562 | 8,090 |
| Collection System | 3,607 | 3,322 | 5,746 | 5,368 | 5,298 | 7,581 | 30,922 |
| Miscellaneous and Contingency | 3,077 | 3,065 | 3,140 | 2,599 | 2,655 | 2,473 | 17,009 |
| Total | \$22,725 | \$12,756 | \$13,443 | \$12,974 | \$12,770 | \$22,062 | \$96,730 |

THE TELECOMMUNICATIONS SYSTEM

The System has been providing retail telecommunications services since 1995 under the brand "GRUCom." Services provided by GRUCom include data transport services to other local businesses, government entities, local and inter-exchange carriers, and Internet service providers. Additional services provided by GRUCom include tower space leases for wireless personal communications (cellular telephone) providers, public safety radio services for all the major public safety agencies operating in the County and collocation services in the System's central office. GRUCom is licensed by the FPSC as an Alternative Access Vendor and as an Alternative Local Exchange Carrier.

Service Area

GRUCom provides telecommunications and related services to customers located primarily in the Gainesville urban area, but it provides public safety radio services throughout the entire County through interlocal agreements. GRUCom holds telecommunications licenses that allow it to provide telecommunication services throughout the State. GRUCom operates network connections to interface with all major Interexchange

Carriers ("IXC") who maintain facilities in the County, as well as interconnections with both of the County's two incumbent local exchange carriers.

Services Provided

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

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

GRUCom also uses the fiber optic network to provide high speed, dedicated Internet access services. Business connections to the Internet are offered at access speeds ranging from 10 Mbps up to 1 Gbps. Dedicated Internet access is also offered to residential customers in participating multi-dwelling complexes at speeds up to 50 Mbps under the brand name GATOR NET. 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").

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, the Shands Healthcare System and the University of Florida Health Science Center. As of September 30, 2014, GRUCom had a total of 666 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, 2014, GRUCom had 7,272 Internet access customer

connections, while dial-up customers totaled 258. GRUCom tower space leasing services are used primarily by wireless providers, which include cellular telephone and PCS companies. As of September 30, 2014, GRUCom executed 38 tower leases, for space on twelve 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 2,991 subscriber units in service.

Description of Facilities

As of September 30, 2014, GRUCom had 448.9 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 via Synchronous Optical Network standard protocol, GRUCom has deployed equipment manufactured by Ciena (primarily); and for services requiring transmission via 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 Systems 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 maintains a point-of-presence at the Telx Group, Inc. collocation and interconnection facility located in Atlanta, Georgia (the "Telx Facility"). The Telx Facility provides access to hundreds of leading domestic and international carriers as well as physical connection points to the world's telecommunications networks and internet backbones. Atlanta, Georgia is a major fiber interconnection point from Florida to New York and the Telx Facility sits on top of most of the fiber. GRUCom maintains multiple ultra-high bandwidth backbone transmission interconnections on diverse routes between Gainesville and the Telx Facility to provide highly reliable Internet access to customers in Gainesville. GRUCom is also a member of the Telx Internet Exchange ("TIE"), a separate peering point in the Telx Facility. The TIE allows GRUCom to quickly and easily exchange internet protocol ("IP") traffic directly with over 60 of the world's largest Internet Service Providers ("ISPs"), Content Providers, Gaming Providers and Enterprises, including companies such as Google, 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 owned and operated by Verizon Terremark and 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 Telx Facility 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.

Capital Improvement Program

The System's current six-year GRUCom capital improvement program requires approximately \$37,234,000 in capital expenditures between the fiscal years ending September 30, 2015 through 2020. A breakdown of the categories included in the six-year capital improvement program is outlined below.

GRUCom Capital Improvement Program

| | Fiscal Years ending September 30, | | | | | | |
|-------------------------------------|-----------------------------------|---------|---------|---------|---------|---------|----------|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
| | (dollars in thousands) | | | | | | |
| Fiber Optic Expansion | \$5,564 | \$5,601 | \$5,742 | \$6,078 | \$5,188 | \$5,344 | \$33,517 |
| Special Project | 806 | 557 | 559 | - | - | - | 1,922 |
| General Plant | 230 | 165 | 170 | 182 | 211 | 217 | 1,175 |
| Miscellaneous and Contingency | 90 | 95 | 97 | 102 | 117 | 119 | 620 |
| Total | \$6,690 | \$6,418 | \$6,568 | \$6,362 | \$5,516 | \$5,680 | \$37,234 |

RATES

General

In general, the rates of municipal electric utilities in Florida are established by the governing bodies of such utilities. Under Chapter 366, Florida Statutes, the FPSC has jurisdiction over municipal electric utilities only to prescribe uniform systems and classifications of accounts, to require electric power conservation and reliability, to regulate electric impact fees, to establish rules and regulations regarding cogeneration, to approve territorial agreements, to resolve territorial disputes, to prescribe rate structures, to prescribe and enforce safety standards for transmission and distribution facilities and to prescribe and require the periodic filing of reports and other data. Pursuant to the rules of the FPSC, rate structure is defined as "... the classification system used in justifying different rates and, more specifically ... the rate relationship between various customer classes, as well as the rate relationship between members of a customer class." However, the FPSC and the Florida Supreme Court have determined that, except as to rate structure, the FPSC does not have jurisdiction over municipal electric utility rates. The FPSC also has the authority to determine the need for certain new transmission and generation facilities.

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

Although the rates of the System are not subject to federal regulation, the National Energy Act of 1978 contains provisions which required the City to hold public proceedings to consider and determine the appropriateness of adopting certain enumerated federal standards in connection with the establishment of its

retail electric rates. Such proceedings have been completed and the results currently are reflected in the System's policies and electric rate structure.

The City Commission's sole authority to set the level of the rates and charges of the System is constrained by the Resolution to set rates that comply with the rate covenant in the Resolution. See "SECURITY FOR THE 2014 SERIES A/B BONDS – Rate Covenant" herein. Future projected revenue requirement changes provided in this Official Statement have been developed by the System's staff based on the most recent forecasts and operation projections available.

Electric System

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

The table below presents electric system base rate revenue, fuel and purchased power adjustment revenue and total bill changes since 2010 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) | Total Bill Increase/(Decrease)⁽²⁾ |
|--------------------------------|---|---|---|
| Historical | | | |
| October 1, 2010 | 2.25% | (7.10)% | (1.92)% |
| October 1, 2011 | 1.72 | (1.90) | 0.56 |
| October 1, 2012 | 0.00 | 0.00 | 0.00 |
| October 1, 2013 | (5.60) | 39.00 | 10.60 |
| October 1, 2014 | (8.50) | 13.04 | 0.97 |
| Projected⁽³⁾ | | | |
| October 1, 2015 | 3.50 | 3.85 | 3.70 |
| October 1, 2016 | 3.00 | 2.47 | 2.70 |
| October 1, 2017 | 0.00 | 1.20 | 0.70 |
| October 1, 2018 | 0.00 | 1.19 | 0.70 |
| October 1, 2019 | 0.00 | 0.00 | 0.00 |

- (1) Change in overall non-fuel revenues collected from all retail customer classes from billing elements, including monthly service charges, kWh energy usage charges, and demand charges for the rate classes with demand metered separately from energy (General Service Demand and Large Power rate categories). Fuel revenue requirements are collected as a uniform charge on all kWh of energy used. Increases or decreases are applied to billing elements to reflect the most recent cost of service studies and to yield the overall revenue requirement.
- (2) Based on monthly residential customer bill at 1,000 kWh.
- (3) All changes in the System's revenue requirements are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

The System has used amounts on deposit in a reserve known as the "fuel adjustment levelization balance" that the System has accumulated, the balance of which on September 30, 2014 was approximately \$11.2 million. The balance has and continues to be used to mitigate the amount of fuel and purchased power adjustment revenue increases in fiscal years 2014, 2015 and 2016. The balance of this fund is projected to be approximately \$7.9 million on October 1, 2015, and is anticipated to be fully drawn down during the years ending September 30, 2015 and September 30, 2016.

For each of the fiscal years ending September 30, 2016 through September 30, 2021, Management intends to submit the portion of its plan relating to such fiscal year (including the proposed base rate revenue and fuel and purchased power adjustment revenue changes for such fiscal year) to the City Commission for approval in connection with its approval of the System's annual budget for such fiscal year.

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 will allow 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 across a greater number of kWh, lowering the fuel adjustment for all customers. This program will be revenue neutral during the five year discount period, with additional revenues after the discount ends. No customers are 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, which became effective October 1, 2014, are provided below by class of service. Though the rates are functionally unbundled, they are presented to the customer for billing purposes in a rebundled format.

Residential Standard Rate

| | |
|--|----------|
| Customer charge, per month | \$12.75 |
| First 250 kWh, Total charge per kWh..... | \$ 0.031 |
| 251 – 750 kWh, Total charge per kWh | \$ 0.042 |
| All kWh per month over 750, Total charge per kWh | \$ 0.084 |

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

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

| | |
|---|----------|
| Customer charge, per month | \$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 (before Business Partners Program discounts, if applicable)

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

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

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

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

| | |
|------------------------------------|----------|
| Customer charge, per month | \$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 2.56% 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. See "LITIGATION" herein for threatened litigation against the City related to the application by GRU of the Florida gross receipts tax and the City's utility tax and surcharge.

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 9,287 kWh in the fiscal year ending September 30, 2014.

Comparison of Monthly Electric Bills ⁽¹⁾

| | Residential 1,000 kWh | General Service | | |
|--|----------------------------------|---------------------------------|--|---|
| | | Non-Demand 1,500 kWh | Demand 30,000 kWh 75 kW | Large Power 430,000 kWh 1,000 kW |
| Florida Power & Light Company | \$104.91 | \$162.41 | \$2,638.42 | \$32,445.02 |
| Lakeland Electric | \$105.49 | \$162.33 | \$2,616.69 | \$36,137.59 |
| Orlando Utilities Commission | \$109.43 | \$170.74 | \$2,685.00 | \$36,737.60 |
| Kissimmee Utility Authority ⁽²⁾ | \$110.26 | \$178.00 | \$3,075.49 | \$42,351.52 |
| Tampa Electric Company | \$113.28 | \$174.22 | \$2,898.04 | \$38,619.30 |
| JEA | \$115.96 | \$167.25 | \$3,048.10 | \$42,659.50 |
| City of Tallahassee | \$117.20 | \$146.19 | \$2,746.83 | \$37,427.12 |
| Clay Electric Cooperative, Inc. | \$118.50 | \$180.05 | \$2,962.25 | \$39,160.00 |
| Ocala Electric Authority | \$118.64 | \$175.92 | \$2,953.50 | \$43,704.63 |
| Ft. Pierce Utilities Authority | \$120.34 | \$189.68 | \$3,275.85 | \$49,108.63 |
| City of Vero Beach | \$123.93 | \$192.88 | \$3,457.55 | \$41,514.80 |
| Duke (Formerly Progress Energy). | \$129.49 | \$227.46 | \$3,538.59 | \$49,169.12 |
| Gulf Power Company | \$136.42 | \$198.15 | \$3,045.54 | \$40,610.39 |
| Gainesville Regional Utilities | \$140.50 | \$250.00 | \$4,277.50 | \$57,243.40 |

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

(1) Rates in effect for October 2014 applied to noted billing units, ranked by residential bills. Includes 6% franchise fees for investor-owned utilities FPL, Gulf Power Company and Duke. Excludes public utility taxes, sales taxes and surcharges.

(2) Kissimmee Utility Authority values are from June 2014.

Natural Gas System

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

The table below presents natural gas system base rate revenue, purchased gas adjustment revenue and total bill changes since 2010 and Management's most recent projections of future base rate revenue, purchased gas adjustment revenue and total bill changes. The percentage changes shown do not represent the percentage change in the base rate revenue, purchased gas adjustment revenue or total bill for any particular customer

classification or customer. Rather, they represent the aggregate amount required to fund changes in projected non-fuel and purchased gas revenue requirements for the natural gas system.

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

| | Percentage Base Rate Revenue Increase/(Decrease)⁽¹⁾ | Percentage Purchased Gas Adjustment Revenue Increase/(Decrease) | Total Bill Increase/(Decrease)⁽²⁾ |
|--------------------------------|---|--|---|
| Historical | | | |
| October 1, 2010 | 2.25% ⁽³⁾ | 11.30% | 0.45% |
| October 1, 2011 | 0.00 ⁽⁴⁾ | (6.78) | 1.90 |
| October 1, 2012 | 0.00 | (13.04) | (5.03) |
| October 1, 2013 | 0.85 | 0.00 | 0.61 |
| October 1, 2014 | 4.25 ⁽⁵⁾ | 15.00 | 7.93 |
| Projected⁽⁶⁾ | | | |
| October 1, 2015 | 4.25 | 5.0 | 4.43 |
| October 1, 2016 | 4.25 | 5.0 | 4.43 |
| October 1, 2017 | 1.00 | 5.0 | 1.97 |
| October 1, 2018 | 0.00 | 5.0 | 1.25 |
| October 1, 2019 | 0.00 | 5.0 | 1.30 |

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

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

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

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

(5) In addition to the base rate increase indicated in the table, the rate for the separate charge for remediation of the MGP site was increased from \$0.0505 to \$0.0556.

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

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Rates and Charges for Natural Gas Service

The current natural gas rates, which became effective October 1, 2014, are provided below by class of service:

| | | |
|---|--------------------|---------------------|
| Residential Service Rate | | |
| Customer Charge..... | \$9.75 per month | \$9.52 per month |
| Non-Fuel Energy Charge | \$0.502 per therm | \$0.482 per therm |
| Small Commercial Rate | | |
| Customer Charge..... | \$20.00 per month | \$20.00 per month |
| Non-Fuel Energy Charge..... | \$0.490 per therm | \$0.465 per therm |
| General Firm Service Rate | | |
| Customer Charge..... | \$40.00 per month | \$40.00 per month |
| Non-Fuel Energy Charge | \$0.365 per therm | \$0.343 per therm |
| Interruptible Service Rate | | |
| Customer Charge..... | \$375.00 per month | \$375.00 per month |
| Non-Fuel Energy Charge | \$0.315 per therm | \$0.315 per therm |
| Large Volume Interruptible Rate | | |
| Customer Charge..... | \$375.00 per month | \$375.00 per month |
| Energy Charge..... | \$0.205 per therm | \$0.20394 per therm |
| Manufactured Gas Plant Cost Recovery Factor (Applied to All Rate Classes) | \$0.0556 per therm | \$0.0505 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 tax at the rate of 2.56% 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 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. See "LITIGATION" herein for threatened litigation against the City related to the application by GRU of the Florida gross receipts tax and the City's utility tax and surcharge.

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Comparison with Other Utilities

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

Comparison of Monthly Natural Gas Bills⁽¹⁾

| | Residential 25 therms | General Firm 300 therms | Interruptible 30,000 therms |
|---------------------------------------|----------------------------------|------------------------------------|--|
| Gainesville Regional Utilities | \$35.19 | \$304.18 | \$21,993.00 |
| Okaloosa Gas District | \$40.38 | \$332.71 | \$24,840.99 |
| Tallahassee | \$43.30 | \$438.25 | \$24,139.98 |
| City of Sunrise ⁽²⁾ | \$43.71 | \$369.84 | |
| Pensacola | \$47.88 | \$481.69 | \$27,961.40 |
| Central Florida Gas | \$49.18 | \$339.39 | \$20,486.67 |
| Kissimmee ⁽³⁾ | \$49.66 | \$402.23 | \$31,250.70 |
| Lakeland ⁽³⁾ | \$49.66 | \$402.23 | \$31,250.70 |
| Orlando ⁽³⁾ | \$49.66 | \$402.23 | \$31,250.70 |
| Tampa ⁽³⁾ | \$49.66 | \$402.23 | \$31,250.70 |
| Ft. Pierce | \$50.97 | \$378.37 | \$28,354.19 |
| Clearwater ⁽⁴⁾ | \$51.25 | \$520.00 | \$34,150.00 |

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

- (1) Rates in effect for October 2014 applied to noted billing volume (excludes all taxes). Sorted in ascending order by residential charges.
- (2) Sunrise does not offer an interruptible service.
- (3) Service provided by People's Gas.
- (4) Clearwater values from June 2014, October values not available.

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Water and Wastewater System

The table below presents water system base rate revenue and total bill changes since 2010 and Management's most recent projections of future base rate revenue and total bill changes. The percentage increases shown do not represent the percentage change in the base rate revenue or total bill for any particular customer classification or customer. Rather, they represent the aggregate amount required to fund increases in projected revenue requirements for the water system.

Water System Base Rate Revenue and Total Bill Changes

| | Percentage Base Rate Revenue Increase⁽¹⁾ | Total Bill Increase⁽²⁾ |
|--------------------------|--|--|
| Historical | | |
| October 1, 2010 | 7.00% | 15.01% |
| October 1, 2011 | 8.41 | 6.09 |
| October 1, 2012 | 3.50 | 4.78 |
| October 1, 2013 | 3.85 | 10.20 |
| October 1, 2014 | 3.75 | 1.88 |
| Projected ⁽³⁾ | | |
| October 1, 2015 | 3.75 | 3.23 |
| October 1, 2016 | 0.00 | 0.00 |
| October 1, 2017 | 0.00 | 0.00 |
| October 1, 2018 | 0.00 | 0.00 |
| October 1, 2019 | 0.00 | 0.00 |

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

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

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The table below presents wastewater system base rate revenue and total bill changes since 2010 and Management's most recent projections of future base rate revenue and total bill changes. The percentage increases shown do not represent the percentage change in the base rate revenue or total bill for any particular customer classification or customer. Rather, they represent the aggregate amount required to fund increases in projected revenue requirements for the wastewater system.

**Wastewater System
Base Rate Revenue and Total Bill Changes**

| | Percentage Base Rate Revenue Increase⁽¹⁾ | Total Bill Increase⁽²⁾ |
|--------------------------|--|--|
| Historical | | |
| October 1, 2010 | 3.50% | 4.92% |
| October 1, 2011 | 4.40 | 5.44 |
| October 1, 2012 | 3.00 | 4.58 |
| October 1, 2013 | 2.40 | 1.77 |
| October 1, 2014 | 4.85 | 4.00 |
| Projected ⁽³⁾ | | |
| October 1, 2015 | 4.85 | 4.85 |
| October 1, 2016 | 4.85 | 4.85 |
| October 1, 2017 | 0.00 | 0.00 |
| October 1, 2018 | 0.00 | 0.00 |
| October 1, 2019 | 0.00 | 0.00 |

- (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) Based on monthly residential customer bill at 7,000 gallons.
- (3) All changes in the System's rates are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

Rates and Charges for Water and Wastewater Services

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

Residential customers are subject to inverted block rates. Under this structure, usage of 0 to 6,000 gallons represents the first tier, under which customers are charged a flat billing rate. Usage greater than 6,000 gallons but less than 20,000 gallons represents the second tier. All usage of 20,000 gallons and above represents the third tier, under which customers are billed at a rate 64% greater than the second tier. The third tier was established to recover capital impacts on the water system by high-volume users. Prior to October 1, 2011, the first tier represented 0 to 9,000 gallons and the second tier represented over 9,000 to 24,000 gallons. From October 1, 2011 to September 30, 2013, the first tier represented 0-7,000 gallons and the second tier represented over 7,000 gallons but less than 20,000 gallons.

The City Commission adopted a new Multi-Family water rate as part of the fiscal year 2015 budget. The pricing for the rate is equivalent to that of the second tier of the three tier residential rate. The increase is being phased in over two years, projected to be completed during the fiscal year 2016 budget approval process.

Additional discussion is expected to occur in City Commission subcommittees prior to the fiscal year budget approval process which may result in extending the phase in over an additional year.

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 nineteen hundreds. In October 1999, the University of Florida water rates were indexed to non-residential water rates. Specifically, the off-campus price was established at 89% of the published System price. The on-campus price was 78% of the off-campus price. In 2004, the University of Florida rates became cost-of-service based. In October 2006, the fire hydrant charges for the University of Florida were included in base water rates.

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

Monthly Service Charges

Monthly service charges are levied for the actual units of service rendered individual customers. Customers pay a rate per thousand gallons of water consumed or wastewater treated, and all customers pay a monthly billing charge. All wastewater customers are subject to rate surcharges for wastewater discharges which exceed normal domestic strength. Commercial customers are billed 95% of their water usage as wastewater while residential customers have individual maximum charges, established by consumption during non-irrigating seasons, to eliminate non-returned water from their wastewater bill. Customers are subject to fees to pay the costs associated with monitoring their discharge. The table below lists the charges for water and wastewater service that became effective October 1, 2014.

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Current Monthly Charges For Water and Wastewater Services

Water Rates:

Residential

Customer Billing Charge \$9.20 per month

Consumption Rate:

First 6,000 gallons \$2.35 per 1,000 gallons

Over 6,000 to less than 20,000 gallons \$3.75 per 1,000 gallons

20,000 or more gallons \$6.00 per 1,000 gallons

Commercial

Customer Billing Charge \$9.20 per month

Consumption Rate \$3.85 per 1,000 gallons

University of Florida

Customer Billing Charge \$9.20 per month

Consumption Rate:

On-campus facilities \$2.22 per 1,000 gallons

Off-campus facilities \$2.64 per 1,000 gallons

City of Alachua⁽¹⁾

Customer Billing Charge \$9.20 per month

Consumption Rate \$1.62 per 1,000 gallons

Wastewater Rates:

Residential and Commercial

Customer Billing Charge \$8.40 per month

All Usage⁽²⁾ \$6.05 per 1,000 gallons

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

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

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Comparison with Other Cities

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

Comparison of Monthly Residential Water and Wastewater Bills⁽¹⁾

| <u>City</u> | <u>Water</u> | <u>Wastewater</u> | <u>Total</u> |
|---------------------------------------|---------------------|--------------------------|---------------------|
| Orlando | \$13.71 | \$48.01 | \$61.72 |
| Orange County | \$15.36 | \$39.54 | \$54.90 |
| Ocala ⁽³⁾ | \$15.94 | \$42.72 | \$58.66 |
| Tallahassee ^{(2) (3)} | \$20.46 | \$55.11 | \$75.57 |
| Tampa | \$21.04 | \$55.03 | \$76.07 |
| Lakeland | \$21.08 | \$41.38 | \$62.46 |
| Winter Haven ⁽²⁾ | \$22.72 | \$31.96 | \$54.68 |
| Jacksonville | \$23.37 | \$44.11 | \$67.48 |
| Gainesville Regional Utilities | \$25.65 | \$50.75 | \$76.40 |
| Pensacola (ECUA) | \$26.75 | \$39.81 | \$66.56 |
| Lake City | \$29.96 | \$56.40 | \$86.36 |
| St. Augustine | \$35.09 | \$42.60 | \$77.69 |
| Ft. Pierce | \$36.54 | \$53.73 | \$90.27 |
| Daytona Beach | \$43.38 | \$68.08 | \$111.46 |

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.

- (1) Comparisons are based on 7,000 gallons of metered water and 7,000 gallons of wastewater treated and rates in effect for October 2014; excludes all taxes, surcharges, and franchise fees. Sorted in ascending order by total charges.
- (2) Similar water treatment process -- filtration and softening.
- (3) Similar wastewater treatment process -- public access reuse levels.

Surcharge

Non-exempt water customers residing within the City's corporate limits are assessed a 10% utility tax. Non-exempt water customers residing outside the City's corporate limits are assessed a 25% surcharge and pay a 10% County utility tax. There is no utility tax on wastewater. However, non-exempt wastewater customers residing outside the City's corporate limits are assessed a 25% surcharge. Effective October 1, 2001, water and wastewater connection charges were subject to the 25% surcharge imposed on non-exempt customers not residing within the City's corporate limits. This surcharge on connection fees has been suspended for fiscal year 2015.

Connection Charges

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

Effective October 1, 2014, transmission and distribution/collection system connection charges for individual lots are \$420 to connect to the water system and \$650 to connect to the wastewater system. The water meter installation charge is \$510 for a typical single family dwelling (requiring 5/8 inch meter). The total water system connection charges for a typical single family dwelling (requiring 5/8 inch meter) are \$1,590 for new water service and the total wastewater connection charges are \$3,780 for new wastewater service. Total water and wastewater connection charges for a typical single family dwelling are \$5,370.

**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, based upon (a) actual average annual usage by the System's residential customers by category of service during the fiscal year ending September 30, 2014 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⁾ |
|---------------------------------------|--|--|
| Lakeland | \$181.82 | \$217.61 |
| Orlando | 184.39 | \$220.81 |
| Kissimmee | 186.06 | \$222.39 |
| Vero Beach | 191.56 | \$231.50 |
| Tampa | 191.88 | \$239.01 |
| Ocala | 191.94 | \$226.96 |
| Tallahassee | 194.38 | \$236.08 |
| Jacksonville | 196.39 | \$233.10 |
| Gainesville Regional Utilities | 197.85 | \$252.09 |
| Clay County | 198.22 | \$236.21 |
| Pensacola | 202.35 | \$250.87 |
| Ft. Pierce | 212.68 | \$261.58 |

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.

- (1) Based upon rates in effect for February 2014 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 ending September 30, 2014, as follows: for electric service: 760 kWh; for natural gas service: 25 therms; for water service: 6,000 gallons of metered water; and for wastewater service: 5,000 gallons of wastewater treated.
- (3) Monthly costs of service have been calculated based upon standard industry benchmarks for average annual usage by residential customers, as follows: for electric service: 1,000 kWh; for natural gas service: 25 therms; for water service: 7,000 gallons of metered water; and for wastewater service: 7,000 gallons of wastewater treated.

Since the System's rates for electric, water and wastewater service are designed to encourage conservation, actual average usage of those utility services by residential customers of the System are lower than the standard industry benchmarks for average annual usage by residential customers that typically are used for rate comparison purposes. As a result, the total monthly cost of electric, gas, water and wastewater service for residential customers of the System, calculated based upon actual average usage by such customers during the fiscal year ending September 30, 2014, 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 ending September 30, 2011 through September 30, 2014 (Unaudited) and has been prepared in accordance with the requirements of the Resolution. The information in the table for the fiscal years ending September 30, 2011 through September 30, 2013 is derived from the audited financial statements of the City for the System, while the information for the fiscal year ending September 30, 2014 is unaudited. 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 ending September 30, 2013, included as APPENDIX B to this Official Statement.

| | Fiscal Years ending September 30, | | | Unaudited |
|--|-----------------------------------|------------------|------------------|---------------------|
| | 2011 | 2012 | 2013 | 2014 ⁽²⁾ |
| | (dollars in thousands) | | | |
| Revenues: | | | | |
| Electric | \$264,965 | \$249,154 | \$249,477 | \$ |
| Gas | 29,966 | 24,983 | 24,236 | |
| Water..... | 32,361 | 32,087 | 32,367 | |
| Wastewater..... | 35,612 | 36,433 | 37,661 | |
| GRUCom | 13,263 | 14,023 | 12,223 | |
| Total Revenues | <u>\$376,167</u> | <u>\$356,680</u> | <u>\$355,964</u> | <u>\$</u> |
| Operation and Maintenance Expenses: | | | | |
| Electric | \$172,601 | \$160,570 | \$167,594 | \$ |
| Gas | 18,759 | 15,281 | 14,779 | |
| Water..... | 12,391 | 12,614 | 13,132 | |
| Wastewater..... | 13,562 | 12,749 | 13,584 | |
| GRUCom | 5,307 | 5,916 | 5,378 | |
| Total Operation and Maintenance Expenses..... | <u>\$222,620</u> | <u>\$207,130</u> | <u>\$214,467</u> | <u>\$</u> |
| Net Revenues: | | | | |
| Electric | \$92,364 | \$88,584 | \$81,883 | \$ |
| Gas | 11,207 | 9,702 | 9,457 | |
| Water..... | 19,970 | 19,473 | 19,235 | |
| Wastewater..... | 22,050 | 23,684 | 24,077 | |
| GRUCom | 7,956 | 8,107 | 6,845 | |
| Total Net Revenues | <u>\$153,547</u> | <u>\$149,550</u> | <u>\$141,497</u> | <u>\$</u> |
| Aggregate Debt Service on Bonds | \$64,007 | \$63,756 | \$56,101 | \$ |
| Debt Service Coverage Ratio for Bonds | 2.40x | 2.35x | 2.52x | |
| Debt Service on Subordinated Indebtedness ⁽¹⁾ | \$6,261 | \$6,037 | \$11,789 | \$ |
| Total Debt Service on Bonds and Subordinated Indebtedness..... | \$70,268 | \$69,793 | \$67,890 | \$ |
| Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness..... | 2.19x | 2.14x | 2.08x | |

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

(2) The information for the fiscal year ending September 30, 2104 is unaudited, as the external audit is currently in progress and will not be completed until after the date of this Official Statement.

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. The figures for fiscal year 2014 are unaudited and subject to adjustment upon the completion of the audit.

For the electric system, base rate revenue requirements were increased by 1.72% for the fiscal year ending September 30, 2012, were unchanged for the fiscal year ending September 30, 2013 and decreased by 5.6% for the fiscal year ending September 30, 2014. While the System has experienced upward rate pressure due to lower than anticipated sales, increased efficiencies and cost controls have kept the overall customer bill increases, including fuel, in line with inflation. For the fiscal years ending September 30, 2012 and September 30, 2013, the electric system withdrew approximately \$1.1 million and \$4.3 million, respectively, from the Rate Stabilization Fund. For the fiscal year ending September 30, 2014, the system is projected to contribute \$4.6 million to the Rate Stabilization Fund.

Energy sales (in MWh) to retail customers decreased 1.6% per year from the fiscal year ending September 30, 2010 to the fiscal year ending September 30, 2014. The number of electric customers increased at an average annual rate of 0.4% between the fiscal years ending September 30, 2010 and September 30, 2014. Energy Sales to the City of Alachua also decreased 1.9% per year during this period. The decrease in energy sales to both retail and wholesale customers is primarily a function of high sales in 2010 resulting from a cold winter.

Native load fuel cost decreased by approximately \$2.4 million from the fiscal year ending September 30, 2012 to the fiscal year ending September 30, 2013. From the fiscal year ending September 30, 2013 to the fiscal year ending September 30, 2014, the cost increased by approximately \$45.0 million. This increase in native load fuel cost is primarily due to the integration of the non-fuel energy charge and fixed O&M charge associated with the GREC PPA effective December 17, 2013. Fuel and purchased power adjustment revenues decreased by 2.3% from the fiscal year ending September 30, 2012 to the fiscal year ending September 30, 2013 and increased by 46% from the fiscal year ending September 30, 2013 to the fiscal year ending September 30, 2014. \$9.4 million of this increase in fuel and purchased power adjustment revenue was drawn from the "fuel adjustment levelization balance" reserve during fiscal year ending September 30, 2014. Net revenues from electric interchange sales increased by approximately \$0.8 million between the fiscal year ending September 30, 2012 and the fiscal year ending September 30, 2013. From the fiscal year ending September 30, 2013 to the fiscal year ending September 30, 2014, these revenues increased by approximately \$0.6 million. The fluctuation in electric interchange sales was attributable to several factors, including decreased demand and economic pricing conditions within the interchange market from the availability of excess marketable generation. Certain fixed capacity costs associated with transmission of interchange activity were netted against revenues in fiscal year 2012 that further eroded net revenues from interchange sales.

From the fiscal year ending September 30, 2010 to the fiscal year ending September 30, 2014, natural gas sales decreased by 1.9% per year. The number of gas customers increased at an annual rate of approximately 0.40% between fiscal years ending September 30, 2010 and September 30, 2014.

Natural gas fuel costs decreased by approximately 8.0% from the fiscal year ending September 30, 2012 to the fiscal year ending September 30, 2013, and increased by approximately 14.3% from the fiscal year ending September 30, 2013 to the fiscal year ending September 30, 2014. 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 a 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 years ending September 30, 2012 and September 30, 2013, with a nominal increase of 0.85% for the fiscal year ending September 30, 2014. For the fiscal years ending September 30, 2012 and September 30, 2013, the natural gas system withdrew approximately \$1.48 million and \$580,000, respectively, from the Rate Stabilization Fund. For the fiscal year ending September 30, 2014, the natural gas system is projected to withdraw approximately \$270,000 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 ending September 30, 2003. The estimated remaining cost to be recovered is approximately \$17.0 million. See "THE NATURAL

GAS SYSTEM – Manufactured Gas Plant" herein. For the fiscal year ending September 30, 2014, the rate for the per therm charge with respect to the MGP site was \$0.0556.

Water system sales are dependent on seasonal rainfall. From the fiscal year ending September 30, 2010 to the fiscal year ending September 30, 2014, sales decreased by an average annual rate of 1.9% and customers grew by 0.5%. Revenues from water sales increased by approximately \$4,098,445 from the fiscal year ending September 30, 2010 to the fiscal year ending September 30, 2014. 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 8.41% in the fiscal year ending September 30, 2012, 3.5% in the fiscal year ending September 30, 2013 and 3.85% in the fiscal year ending September 30, 2014. For the fiscal years ending September 30, 2012 and September 30, 2013, the water system contributed approximately \$656,000 and \$48,000, respectively, to the Rate Stabilization Fund. For the fiscal year ending September 30, 2014, the water system is projected to contribute approximately \$423,000 to the Rate Stabilization Fund.

Wastewater system billings generally track water system sales. From the fiscal year ending September 30, 2010 to the fiscal year ending September 30, 2014, the wastewater system billing volumes decreased 0.9% per year. Revenues during this same period increased 14.8% due to base rate revenue requirement increases. Approximately 1.6% less wastewater was billed for the fiscal year ending September 30, 2014, as compared to fiscal year ending September 30, 2013, while revenues increased by 2.0% during the period, also due to base rate revenue requirement increases. The revenue impact of the lower sales was mitigated by rate increases. Wastewater base rate revenue requirements were increased by 4.4% in the fiscal year ending September 30, 2012, 3.00% in the fiscal year ending September 30, 2013 and 2.4% in the fiscal year ending September 30, 2014. Wastewater revenues from October 1, 2012 to September 30, 2013 were 3.8% greater than during the same period of the previous fiscal year. For the fiscal years ending September 30, 2012 and September 30, 2013, the wastewater system withdrew approximately \$380,000 and \$1.1 million, respectively, from the Rate Stabilization Fund. The wastewater system is projected to contribute approximately \$1.9 million to the Rate Stabilization Fund for the fiscal year ending September 30, 2014.

GRUCom continued to expand its services during the period from the fiscal year ending September 30, 2011 to the fiscal year ending September 30, 2012, with an increase in sales for the fiscal year ending September 30, 2013. From the fiscal year ending September 30, 2011 to the fiscal year ending September 30, 2012, GRUCom sales revenue increased by approximately 8.38%. Between the fiscal years ending September 30, 2012 and September 30, 2013, GRUCom sales revenue increased by 4.44%. For the fiscal years ending September 30, 2012 and September 30, 2013, GRUCom withdrew approximately \$3.0 million and \$1.7 million, respectively, from the Rate Stabilization Fund. GRUCom is projected to withdraw approximately \$334,000 from the Rate Stabilization fund for the fiscal year ending September 30, 2014.

The Debt Service Coverage Ratio for Bonds decreased from 2.40x for the fiscal year ending September 30, 2011 to 2.35x for the fiscal year ending September 30, 2012, increased to 2.52x for the fiscal year ending September 30, 2013 and increased to 2.95x for fiscal year ending September 30, 2014 (based on unaudited figures). The Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness decreased from 2.19x to 2.14x from the fiscal year ending September 30, 2011 to the fiscal year ending September 30, 2012, and decreased to 2.08x for the fiscal year ending September 30, 2013, and increased to 2.64x for the fiscal year ending September 30, 2014 (based on unaudited figures). The decreases in the Debt Service Coverage Ratio for Bonds and the Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness between the fiscal years ending September 30, 2011 and September 30, 2012 is the result of a decrease in Net Revenues of 2.6%, which is proportionally greater than the decrease in Total Debt Service of 0.7% between those periods. The increases in the Debt Service Coverage Ratio for Bonds and the Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness between the fiscal years ending September 30, 2012, September 30, 2013, and September 30, 2014 (based on unaudited figures) are the result of a decrease in Net Revenues of 5.4% and 6.8%, respectively, which are proportionally greater than the decrease in Total Debt Service of 2.7% and 26.6% between those periods.

The operating results of the System reflect the results of past operations and are not necessarily indicative of results of operations for any future period. Future operations will be affected by factors relating to

changes in rates, fuel and purchased power and other operating costs, environmental regulation, increased competition in the electric utility industry, economic growth of the community, labor contracts, population, weather, and other matters, the nature and effect of which cannot at present be determined. Net Revenues take into account amounts transferred to or from the Rate Stabilization Fund as permitted by the Resolution. The amounts of these transfers were as follows:

[Update for 2014]

| Transfers from (to) the Rate Stabilization Fund | | | |
|--|-------------|-------------|--|
| Fiscal Years ending September 30, | | | |
| (dollars in thousands) | | | |
| | 2012 | 2013 | Balance at September 30, 2013⁽¹⁾ |
| Electric | 1,069 | \$4,307 | \$45,144 |
| Gas | 1,476 | 580 | 5,425 |
| Water | (656) | (48) | 1,206 |
| Wastewater | (380) | (1,128) | 3,796 |
| GRUCom | 2,955 | 1,656 | 584 |
| Total | 4,464 | \$5,367 | \$56,155 |

(1) Includes amounts on hand plus amounts to be deposited or withdrawn that were accrued as of September 30, 2013.

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

Transfers to General Fund

The transfers to the General Fund made in the fiscal years ending September 30, 2011 through 2013 (as determined in accordance with the formulas described above) were as follows:

[Update for 2014]

| Transfers to General Fund | | |
|--|---------------|------------------------------|
| Fiscal Years ending September 30, | Amount | % Increase/(Decrease) |
| 2011 | \$35,232,540 | 2.5 |
| 2012 | \$36,004,958 | 2.2 |
| 2013 | \$36,656,458 | 1.8 |

| Transfers to General Fund | | |
|--|-----------------------------|------------------------------|
| Fiscal Years ending September 30, | Amount | % Increase/(Decrease) |
| 2014 | \$37,200,000 ⁽¹⁾ | 1.5 |
| 2015 | \$34,892,425 | (6.2) |
| 2016 | \$35,690,560 | 1.62 |
| 2017 | \$36,246,918 | 1.6 |
| 2018 | \$36,811,620 | 1.6 |

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

On April 17, 2014, the City Commission passed Resolution No. 130852, which established a General Fund transfer formula for the System for fiscal years 2015 through fiscal year 2019. Effective October 1, 2014, the General Fund transfer formula is the base amount of the transfer at a level equal to the dollar amount of the fiscal year 2014 transfer that would have been generated by the formula in effect for the period fiscal year 2000 through fiscal year 2010, but the base amount will be increased by 1.5% per year over the period fiscal year 2015 through fiscal year 2019. From this amount, the actual amount of ad valorem revenue received each year by the

City related to the GREC biomass facility will be deducted. The General Fund transfer will be paid from any part of the System's revenues or combination thereof. The formula must be reviewed no less frequently than every other year and is subject to change by the City Commission.

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 Resolution, Florida Statutes and its internal investment policy. See "Investment of Certain Funds and Accounts" and the definition of "Investment Securities" in "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION" in APPENDIX D hereto for a description of the types of investments that the City is permitted to make under the Resolution. The System does not presently have, nor does it intend to acquire in the future, derivative or leveraged investments or investments in mortgage-backed securities. The System does not invest its funds through any governmental or private investment pool (including, without limitation, the 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 GRU and approved by the City Commission. The purpose of the policy is to provide guidance for issuing and managing debt. GRU 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, GRU will continuously work towards developing an optimal capital structure, including the types of variable rate exposure, in view of GRU'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 has also become a member of Coletric, a member-owned collaborative business serving the public power industry. Coletric provides key services related to the development, project management, operations, and maintenance of electric generation, transmission, distribution, gas, and infrastructure facilities. Key benefits to the System have included sharing of spare parts and bulk purchasing of commodities and materials. The System's staff is very involved with the American Public Power Association, the Florida Municipal Electric Association ("FMEA"), and FMPA. These industry associations have proven to be a powerful way to stay informed, plan, and help shape federal and state policies to protect customer interests and assure the fair treatment of municipal systems.

The natural gas system has been subjected to competition due to the deregulation that has occurred in that industry since the early 1990's. A consequence of this deregulation for municipal gas utilities in Florida is that "end-users" are allowed to secure and purchase their gas requirements directly from gas producers, thereby "bypassing" the monopoly producer/pipeline systems. The System's rate structures largely avoid this concern. The System passes fuel costs directly through its purchased gas adjustment, and rates applicable for transportation of system by-pass are allowed to earn a return on distribution infrastructure, which is the sole basis for the System's revenue requirements. Thus, a customer electing to bypass the System simply substitutes its ability to buy gas for the System's ability to buy gas. The sole example of bypass experienced by the System to date was in the case of service to Duke's cogeneration plant at the University of Florida wherein the amount of non-fuel revenue realized from the customer was virtually unchanged by its decision to contract for its own gas supply. Several strategies are being implemented to gain a competitive advantage for the System in natural gas sales growth. Two very significant competitive advantages are the System's position of having among the lowest gas rates in the State, and the environmental benefits of natural gas for certain appliance end uses. Appliance and distribution system construction rebates, in combination with temporary LP distribution systems, are employed to rapidly and flexibly accommodate new development. These LP systems and appliances are converted to natural gas when gas pipeline extensions become feasible. Rebates are also used to assist customers in overcoming the short-term economic obstacles of converting existing electric appliances to natural gas in order to allow them to obtain long-term financial, convenience, and environmental benefits, both inside and outside the System's electrical service territory. The System has franchises to provide retail natural gas services to 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 Alachua.

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

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

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

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

Chilled water provides an additional revenue source, while providing a more efficient, cost effective cooling system that is consistent with environmental stewardship. The System's strategy for chilled water service does not depend on extensive distribution systems; instead, each chilled water and generation facility is located 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. 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. GRU will provide commercial power, emergency power, natural gas, water, wastewater, reclaimed water, chilled water, and telecommunication services to the Innovation District. The Innovation District is projected to constitute significant utility loads, including an electric load of more than 10 MW.

Redevelopment of the Innovation District is an ambitious undertaking and will require that basic utility infrastructure be upgraded to support the dense urban development that is envisioned. GRU has made substantial utility infrastructure improvements already and will continue to make additional improvements in a phased manner in concert with development. 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.

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

GRU has entered into certain agreements that contain provisions giving counterparties certain rights and options in the event of a downgrade in GRU's credit ratings below specified levels and/or the occurrence of certain other events or circumstances. Given its current levels of ratings, Management does not believe that the rating and other credit-related triggers contained in any of its existing agreements will have a material adverse effect on GRU's liquidity, results of operations or financial condition. However, GRU's ratings reflect the views of the rating agencies and not of GRU, and therefore, GRU cannot give any assurance that its ratings will be maintained at current levels for any period of time.

Liquidity Support for GRU's Variable Rate Bonds

GRU has entered into separate standby bond purchase agreements with certain commercial banks in order to provide liquidity support in connection with tenders for purchase of the 2005 Series C Bonds, the 2006 Series A Bonds, the 2007 Series A Bonds, 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 | Union Bank, N.A. | December 21, 2015 |
| 2006A | Union Bank, N.A. | December 21, 2015 |
| 2007A | State Street Bank and Trust Company | March 1, 2018 |
| 2008B | Bank of Montreal | July 7, 2017 |
| 2012B | JP Morgan Chase Bank, National Association | December 31, 2014* |

* Replacement of existing liquidity Facility is ongoing and is expected to be completed by no later than December 31, 2014.

The standby bond purchase agreements relating to the Liquidity Supported Bonds provide that any Liquidity Supported Bond that is purchased by the applicable bank pursuant to its standby bond purchase agreement may be tendered or deemed tendered to GRU for payment upon the occurrence of certain "events of default" with respect to GRU under such standby bond purchase agreement. Upon any such tender or deemed tender, 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, respectively, provide that it is an "event of default" on the part of GRU thereunder if any rating on the 2005 Series C Bonds or the 2006 Series A Bonds, as the case may be, or any parity debt, without taking into account third-party credit enhancement, falls below "A2" by Moody's, "A" by S&P or "A" 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 2007 Series A Bonds provides that it is an "event of default" on the part of GRU 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 GRU 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 GRU thereunder if the ratings on the 2012 Series B Bonds, without giving effect to any third-party credit enhancement, fall below "A" by Fitch, "A2" by Moody's or "A" by S&P or are withdrawn or suspended for credit-related reasons. Replacement of standby bond purchase agreement relating to the 2012 Series B Bonds is ongoing and is expected to be completed by no later than December 31, 2014. 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 GRU's Commercial Paper Program

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

Taxable CP Notes currently have stated termination dates of November 30, 2015 and August 28, 2017, respectively, which dates are subject to extension in the sole discretion of the respective banks.

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

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

With respect to the Series D Taxable CP Notes, among others, it is a tender event on the part of GRU under the related credit agreement if the ratings assigned to any of GRU's long-term debt obligations fall below "Baa" by Moody's or "BBB" by S&P, without regard to gradation or are suspended or withdrawn for credit-related reasons.

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

Interest Rate Swap Transactions

GRU has entered into interest rate swap transactions with three different counterparties under interest rate swap master agreements with respect to the 2005 Series B Bonds, the 2005 Series C Bonds, the 2006 Series A Bonds, the 2007 Series A Bonds and the 2008 Series B Bonds, as well as the Series C CP Notes. The current counterparties are Merrill Lynch Capital Services, Inc., Goldman Sachs Mitsui Marine Derivative Products, L.P. and JP Morgan Chase Bank For additional information concerning those interest rate swap transactions, see the footnotes to the table under the heading "OUTSTANDING DEBT" herein.

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

As of September 30, 2011, GRU's estimated aggregate exposure under all of its then outstanding interest rate swap transactions (*i.e.*, the net amount of the termination payments that GRU would owe its counterparties if all of the interest rate swap transactions were terminated) was \$(74,935,599). As of September 30, 2012, GRU's estimated aggregate exposure under all of its then outstanding interest rate swap transactions was \$(85,396,997). As of October 31, 2014, GRU's estimated aggregate exposure under all of its then outstanding interest rate swap transactions was \$(55,914,979).

GRU adopted Governmental Accounting Standards Board ("GASB") Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, which addresses the recognition, measurement and disclosure of information for derivative instruments, and was effective for periods beginning after June 15, 2009. GASB Statement No. 53 requires retrospective adoption, which requires a restatement of the financial statements for the earliest year presented. GASB Statement No. 53 requires the fair value of derivative instruments,

including interest rate swap transactions, to be recorded on the balance sheet. Changes in fair value for effective derivative instruments are recorded as a deferred inflow or outflow, while changes in fair value for ineffective derivative instruments are recorded as investment income. This is a significant change from previous practice, which required the fair value of derivative instruments to be disclosed in the footnotes to the financial statements.

As more fully described in footnote (3) to the table under the heading "OUTSTANDING DEBT" herein, the City entered into the 2005 Series C Swap Transaction in order to fix synthetically, 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, as more fully described in footnote (4) to the table under the heading "OUTSTANDING DEBT" herein, the City entered into the 2006 Series A Swap Transaction in order to fix synthetically, 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 4 to the audited financial statement of the System for the fiscal year ending September 30, 2013 included as APPENDIX B to this Official Statement for a discussion of the various risks borne by the City relating to interest rate swap transactions.

Coal Supply Agreements

[The System's coal supply agreement with Alpha Coal Sales Co., LLC ("Alpha Coal") contains provisions entitling Alpha Coal to exercise certain rights based upon the System's creditworthiness. Under the terms of the coal supply agreement, Alpha Coal, has the right to require the System to provide additional collateral as security for its obligations under the agreement if the System receives a senior unsecured or corporate credit rating below investment grade (a rating of "BBB-" by S&P or an equivalent rating from other public rating agencies). Such additional collateral may be in the form of cash, qualifying letters of credit or other security reasonably acceptable to Alpha Coal. Failure of the System to provide additional collateral under any such agreement will constitute an event of default thereunder, and Alpha Coal has the right to terminate such agreement if the default is not adequately cured. Additionally, Alpha Coal also has the right to require payment from the System in cash at least three business days in advance of loading until the System provides Alpha Coal with adequate security. If such payment is not received, Alpha Coal may withhold or suspend delivery of its coal.]

In the event that the System's coal supply agreement is suspended or terminated, the System would have to acquire coal at market rates, which rates could be in excess of the rates that are provided for in its agreement with Alpha Coal. In addition, if a coal supply agreement is terminated, the System may be required to make a termination payment to the applicable seller that would be based upon then current market prices for coal, which payment could be substantial. Unless extended, the agreement with Alpha Coal expires by its terms on ____, 20__. See also "THE ELECTRIC SYSTEM - Energy Supply System - Power Purchase Arrangements - Fuel Supply – Coal" herein.] [Update after RFP at end of November]

Power Purchase Agreements

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

Pursuant to the PPA, the System is required to pay or provide GREC 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, 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 with the right to terminate the PPA.

In June 2014 the City Commission selected Navigant Consulting Inc. to conduct an external review of the management practices and business decisions related to the implementation and any amendments to the GREC PPA, and including a focus on recommendations having positive financial impacts on the System's energy supply and delivery. The external review is intended to address opportunities for financial and operational benefit to the System related but not limited to the GREC PPA and to make recommendations of institutional controls that can be implemented and other financial and operational improvements. The review is expected to be completed in calendar year 2015.

FACTORS AFFECTING THE UTILITY INDUSTRY

General

The primary factors currently affecting the utility industry include environmental regulations, restructuring of the wholesale energy markets, the formation of independent bulk power transmission systems, the formation of an Electric Reliability Organization ("ERO") under FERC jurisdiction, and the increasing strategic and price differences among various types of fuels. No state or federal legislation is pending or proposed at this time for retail competition in Florida.

The emerging role of municipalities as telecommunications providers pursuant to the 1996 Federal Telecommunications Act has resulted in a number of state-level legislative initiatives across the nation to curtail this activity. In Florida, this issue culminated in the passage, in 2005, of legislation 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 of the 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.

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

Environmental and Other Natural Resource Regulations

The System and its operations are subject to federal, state and local environmental regulations which include, among other things, control of emissions of particulates, SO₂ and NO_x into the air; discharges of pollutants, including heat, into surface 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 proposing on June 2, 2014 carbon regulations for existing power plants. Because of how recently the proposed rules for existing units were issued by the EPA they could change significantly before becoming final. Therefore, management is unable to predict what impact such regulations will have on the System or the costs associated therewith. See "THE ELECTRIC SYSTEM – Future Power Supply" herein.

Air Emissions

The Clean Air Act

The Clean Air Act regulates emissions of air pollutants, establishes national air quality standards for major pollutants, and requires permitting of both new and existing sources of air pollution. Among the provisions of the Clean Air Act that affect the System's operations are (1) the acid rain program, which requires nationwide reductions of SO₂ and NO_x from existing and new fossil-fueled electric generating plants, (2) provisions related to toxic or hazardous pollutants, (3) requirements to address regional haze, and (4) requirements to address effects on ambient air quality standards from transport of fine particulate matter and ozone (Clean Air Interstate Rule, Clean Air Transport Rule, Cross State Air Pollution Rule).

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

The Clean Air Interstate Rule (CAIR)

In March 2005, the EPA issued CAIR, which requires reductions of overall NO_x and SO₂ emissions. CAIR is a two-phase cap and trade program under which utilities have several options for complying with the emissions cap, including installation of emission controls, purchasing allowances or switching fuels. The System's DGS and JRK Station are subject to CAIR. Significant capital and operating and maintenance expenditures have been incurred to meet the 2009 and 2010 CAIR compliance dates for Phase I of the NO_x and SO₂ emission caps, respectively. The System installed an SCR, a dry circulating scrubber system, and a fabric filter system at DH 2, all of which went on-line May 1, 2009.

On July 11, 2008, a three judge panel of the United States Court of Appeals for the District of Columbia Circuit (the "D.C. Circuit Court") in *North Carolina v. Environmental Protection Agency*, 531 F.3d 896 ("North

Carolina v. EPA"), unanimously vacated CAIR. On December 23, 2008, the D.C. Circuit Court remanded the CAIR case to the EPA to revise CAIR consistent with its July 11, 2008 decision in *North Carolina v. EPA*. In a subsequent decision in response to petitions for rehearing, however, the court in December 2008 decided to remand CAIR to the EPA without vacating it. This had the effect of reinstating CAIR, including the trading programs, until the EPA issued a new rule consistent with the court's decision. See "*The Clean Air Transport Rule*" below.

The Clean Air Transport Rule

On August 2, 2010, the EPA published in the Federal Register a proposed Clean Air Transport Rule (the "Transport Rule") to reduce the interstate transport of fine particulate matter and ozone. Under Section 110(a)(2)(D)(i)(I) of the Clean Air Act, states are required to prohibit emissions that contribute significantly to nonattainment in, or interfere with maintenance by, any other state with respect to any primary or secondary National Ambient Air Quality Standards ("NAAQS"). In the proposed Transport Rule, the EPA asserts that emissions of SO₂ and NO_x in 32 eastern states contribute significantly to nonattainment or interfere with maintenance of NAAQS in one or more downwind states, more specifically with respect to the annual PM_{2.5} NAAQS, the 24-hour average PM_{2.5} NAAQS, and the ozone NAAQS. The proposed Transport Rule contained one preferred "remedy" option and two alternate schemes. The EPA's preferred option proposed to establish a cap-and-trade program with certain "variance" provisions and limited interstate trading.

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

The Cross-State Air Pollution Rule (CSAPR)

On July 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. Using historical generation figures to project future emissions, Management believes that GRU will have sufficient ozone season NO_x allowances to operate into the foreseeable future.

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, GRU believes that, by granting EPA's motion, the court granted EPA's request. Since Florida only has to comply for Ozone Season NO_x, only the following deadlines apply to GRU's operations :

- May 1, 2015: Phase 1 begins for ozone-season NO_x trading program. Existing units must begin monitoring and reporting NO_x emissions.
- December 1, 2015 (and each Dec. 1 thereafter): Date by which sources must demonstrate compliance with ozone-season NO_x trading program (i.e., allowance transfer deadline).
- May 1, 2017: Phase 2 (2017 and beyond) begins for ozone-season NO_x trading program. Assurance provisions in effect.

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 ("EGUs"). The EPA also signed revisions to the new source performance standards for fossil fuel-fired EGUs. Such revisions revised the standards that new coal- and oil-fired power plants must meet for particulate matter, SO₂ and NO_x.

A review of existing emissions data confirms the System's compliance with all of the new standards without the installation of additional pollution control equipment.

Effluent Limitation Guidelines

In November 2010, the EPA agreed to propose the power plant Effluent Limitation Guidelines ("ELGs") 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. The agency is under a consent decree to take final action by May 22, 2014. Under the proposed approach, new requirements for existing power plants would be phased in between 2017 and 2022 and would leverage flexibilities as necessary. The City continues to evaluate the potential impact of the rule on the utility.

Regional Haze

On June 15, 2005, the EPA issued the Clean Air Visibility Rule, amending its 1999 regional haze rule, which had established timelines for states to improve visibility in national parks and wilderness areas throughout the United States. Under the amended rule, certain types of older sources may be required to install best available retrofit technology ("BART"). Some of the effects of the amended rule could be requirements for newer and cleaner technologies and additional controls for particulate matter, SO₂ and NO_x emissions from utility sources. The states were to develop their regional haze implementation plans by December 2007, identifying the facilities that will have to reduce emissions and then set emissions limits for those facilities. However, states have not met that schedule and on January 15, 2009, the EPA published a notice finding that 37 states, the District of Columbia and the Virgin Islands failed to submit all or a portion of their regional haze implementation plans. The EPA's notice initiates a two-year period during which each jurisdiction must submit a haze implementation plan or become subject to a Federal Implementation Plan issued by the EPA that would set the basic program requirements. See "THE ELECTRIC SYSTEM – Energy Supply System – *Generating Stations – Deerhaven*" herein for a description of the actions that have been taken by the System to install additional emission control equipment at DH 2 and reduce SO₂ 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 SO₂ emissions, which provides DH 2 with an exemption from the RFP section. A draft permit from the FDEP was issued on June 1, 2012 approving the System's requested cap on SO₂ emissions, and the final permit was issued on June 26, 2012.

Internal Combustion Engine MACT

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

Climate Change

Federal Regulation

Control of GHGs such as CO₂ is receiving a great deal of attention within the United States. On April 2, 2007, the United States Supreme Court issued a decision in *Massachusetts v. Environmental Protection Agency*, 549 U.S. 497, holding that GHG emissions are "air pollutants" under the Clean Air Act requiring the EPA to determine whether GHGs pose a threat to health and welfare. On December 15, 2009, the EPA published the final rule for the "endangerment finding" under the Clean Air Act. In the finding, the EPA declared that the six identified GHGs – CO₂, methane, nitrous oxide, hydro-fluorocarbons, perfluorocarbons, and sulfur hexafluoride – cause or contribute to global warming, and that the effects of climate change endanger public health and welfare by increasing the likelihood of severe weather events and the other related consequences of climate change (the "Endangerment Finding"). The issuance of the Endangerment Finding triggered the statutory requirement that the EPA regulate emissions of GHGs as air pollutants from motor vehicles. Such regulations were finalized on April 1, 2010, when the EPA and the United States Department of Transportation issued a joint final rule imposing GHG emission standards on light-duty vehicles (cars and light trucks) (the "Tailpipe Rule"). That regulation took effect on January 2, 2011.

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

On May 13, 2010, the EPA issued a final rule for determining the applicability of the PSD program to GHG emissions from major sources. The rule, known as the "Tailoring Rule," establishes criteria for identifying facilities required to obtain PSD permits and the emissions thresholds at which permitting and other regulatory requirements apply. The applicability threshold levels established by this rule include both a mass-based calculation and a metric known as the carbon dioxide equivalent, or CO₂e, which incorporates the global warming potential for each of the six individual gases that comprise the collective GHG defined in the endangerment finding.

As of January 2, 2011, sources that are subject to PSD and/or Title V permits due to their non-GHG emissions (such as fossil fuel based electric generating facilities for their NO_x, SO₂ and other emissions) will have to address GHG emissions in new permit applications or renewals. Construction or modification of major

sources will become subject to PSD requirements for their GHG emissions if the construction or modification results in a net increase in the overall mass of GHG emissions exceeding 75,000 tons per year on a CO₂e basis. New and modified major sources required to obtain a PSD permit would be required to conduct a BACT review for their GHG emissions. With respect to Title V requirements, as of January 2, 2011, sources that are required to have Title V permits for non-GHG pollutants will be required to address GHGs as part of their Title V permitting. The 75,000 tons per year CO₂e applicability threshold does not apply, so when any source applies for, renews, or revises a Title V permit, the Clean Air Act requirements for monitoring, recordkeeping and reporting will be included. On June 26, 2012, the United States Court of Appeals for the D.C. Circuit Court upheld the Endangerment Finding and the Tailpipe Rule and found that the petitioners did not have standing to challenge the Timing and Tailoring Rules. The court dismissed all petitions for review of the Timing and Tailoring Rules for lack of jurisdiction and denied the petitions for review of the Endangerment Finding and the Tailpipe Rule.

On October 15, 2013, following a December 2012 denial of rehearing en banc, the United States Supreme Court granted six of nine petitions for *certiorari*, agreeing to review the single issue of whether the EPA acted within its authority under the Clean Air Act when it determined that its regulation of GHG emissions from motor vehicles triggered permitting requirements for stationary sources that emit GHGs (*Utility Air Regulatory Group v. Environmental Protection Agency*, Case No. 12-1146). Petitioners filed briefs in support of their petitions in December 2013. They argued that EPA's automatic trigger interpretation was impermissible because EPA could have avoided the results by interpreting the PSD provisions as applying only to certain pollutants that do not include GHGs, or by reading section 166 of the CAA as the only mechanism for adding pollutants to the PSD program. In addition, petitioners argued that EPA's tailored regulation of greenhouse gases under the PSD program would be an unconstitutional delegation of authority because the CAA provides no intelligible principle for such an exercise of discretionary power. They also requested that the Supreme Court revisit *Massachusetts v. EPA* and possibly overrule it if it requires coverage of greenhouse gases under the PSD program.

Respondents, EPA, and several other states filed response briefs on January 21, 2014. Respondents argued that EPA's position that GHG emissions are automatically covered by the PSD program as a result of their regulation under other parts of the CAA is consistent with the statute and EPA's longstanding interpretation of the statute. Respondents asserted, moreover, that EPA's interpretation is consistent with the Supreme Court's decisions in *Massachusetts v. EPA* that GHGs are air pollutants under the CAA and its decision in *AEP v. Connecticut*, that the CAA displaces federal common law with respect to greenhouse gas emissions from stationary sources.

The Supreme Court heard oral arguments on February 24, 2014. On June 23, 2014, the Supreme Court issued its opinion in the case, holding that EPA's automatic trigger interpretation in the Tailoring Rule that triggered certain permitting requirements for stationary sources based solely on GHG emissions was invalid. The Court also held, however, that regulation of GHG emissions under PSD permits and Title V for facilities constituting major sources for other pollutants under the Clean Air Act, including most electric generating facilities, is permissible. The System does not expect that the result of this case will provide relief from the Tailoring Rule for any of its planned or existing facilities. However, this decision is not likely to forestall all further legal challenges to EPA regulation of greenhouse gas emissions from stationary sources. For example, as discussed further below, EPA proposed new source performance standards limiting GHG emissions from fossil fuel-fired electric utility generating units that will likely see challenges of its own.

On October 30, 2009, the EPA published the final rule for mandatory monitoring and annual reporting of GHG emissions from various categories of facilities including fossil fuel suppliers, industrial gas suppliers, direct GHG emitters (such as electric generating facilities and industrial processes), and manufacturers of heavy-duty and off-road vehicles and engines. This rule does not require controls or limits on emissions, but requires data collection beginning January 1, 2010. The System's costs of compliance with these new regulations are not fully known at this time. The requirements for monitoring, reporting and record keeping with respect to GHG emissions from existing units should not have a material adverse effect, based on the System's understanding of the rules at this time. The System timely submitted its 2010 and 2011 annual reports of GHG emissions. The

System cannot currently predict how GHG emissions issues will arise in connection with pending or future permit proceedings or whether litigation based on climate change issues will adversely affect the System's construction and development plans.

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

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. The Presidential Memorandum 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, subject to states being able to request more time to submit complete implementation plans and 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. The proposed rule includes target emissions rates for each of the 50 states that are designed to reduce carbon dioxide emissions by 30% of 2005 levels by 2030. While EPA based its determination on emissions reductions by evaluating technical feasibility, costs, size of reductions and technology and by developing building blocks through which reductions can be most easily achieved, including (i) energy efficiency through retrofits at individual facilities, (ii) switching dispatch from coal to less carbon intensive natural gas combined cycle units, (iii) investments in renewable energy and nuclear and (iv) increasing energy efficiency in homes and businesses, the proposed rule provides states with flexibility in designing their plans to meet those emissions, as long as the emission reductions are enforceable, quantifiable and verifiable. EPA anticipates finalizing the rule not sooner than June 2015, and plans to provide states with one to three years after that to develop the plans. While it is unclear what form EPA's rule will take if and when finalized, this rule could have a material effect on the System's operations and costs. It is also unclear what effect, if any, the Supreme Court's recent decision in *Utility Air Regulatory Group v. Environmental Protection Agency* will have on the proposed Clean Power Plan Rule. The System is currently analyzing the proposed rule and the Supreme Court's recent decision, and is continuing to follow this and related activities very closely.

Coal Ash

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

Under the first proposed regulatory option, the EPA would list coal ash destined for disposal in landfills or surface impoundments as "special wastes" subject to regulation under Subtitle C of RCRA. Subtitle C regulations set forth the EPA's hazardous waste regulatory program, which regulate the generation, handling, transport and disposal of wastes. The proposed rule would create a new category of waste under Subtitle C, so that coal ash would not be classified as a hazardous waste, but would be subject to many of the regulatory

requirements applicable to such wastes. Under this option, coal ash would be subject to technical and permitting requirements from the point of generation to final disposal. Generators, transporters, and treatment, storage and disposal facilities would be subject to federal requirements and permits. The EPA is considering imposing disposal facility requirements such as liners, groundwater monitoring, fugitive dust controls, financial assurance, corrective action, closure of units, and post-closure care. This first option also proposes requirements for dam safety and stability for surface impoundments, land disposal restrictions, treatment standards for coal ash, and a prohibition on the disposal of treated coal ash below the natural water table. The first option would not apply to certain beneficial reuses of coal ash.

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

The proposed rule also states that the EPA is considering listing coal ash as a hazardous substance under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA," which is commonly known as "Superfund"), and includes proposals for alternative methods to adjust the statutory reportable quantity for coal ash. The extension of CERCLA to coal ash could significantly increase the System's liability for cleanup of past and future coal ash disposal.

On January 29, 2014, the Environmental Protection Agency agreed to finalize the first-ever federal regulations for the disposal of coal ash by December 19, 2014, according to a settlement in a lawsuit brought by environmental and public health groups and a Native American tribe. The settlement does not dictate the content of the final regulation, but it confirms that the agency will finalize a rule by a date certain after years of delay. The System is therefore unable to determine the effects of this proposed rule at this time. **[Review in December]**

In August of 2012, the Process Water Ponds at the DGS, which receive some fly and bottom ash, were inspected by a contractor at the request of the EPA. This effort was part of a federal initiative to inspect CCR impoundments following a dike failure at a Tennessee Valley Authority facility in 2008. A final report was issued on June 2, 2014. The report includes a specific condition rating for the coal combustion residual ("CCR") management units and recommendations and actions that the contractor for the EPA recommended be undertaken to ensure the stability of the CCR impoundments located at the DGS. GRU submitted to the EPA a work scope response to the recommendations which was accepted by the Agency on October 29, 2014.

Additionally, numerous monitoring wells, in place since initial construction, provide assurance of the containment, or structural stability of the ponds. The results of routine groundwater sampling are submitted to the FDEP. Fly ash from the coal combustion process is typically transported from the site for beneficial commercial uses. Currently, beneficial use of flue gas scrubber by-product is limited; therefore, the majority is deposited in the onsite landfill. The System adheres to a best management practices plan for ash and by-product handling deposited in the onsite landfill. The System adheres to a best management practices plan for ash and by-product handling.

Storage Tanks

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

above-ground distillate and two above-ground No. 6 oil tanks. All of the System's fuel storage tanks have secondary containment and/or interstitial monitoring and the System is insured for the requisite amounts.

Nuclear Decommissioning

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

Superfund and Remediation Sites

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

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

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

Several site investigations have been completed at the JRK Station, most recently in 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 ("ASTs") 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 ("SCTLs"). 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 ("PAHs") (benzo(a)anthracene, benzo(a)pyrene, benzo(b)fluoranthene, and dibenzo(a,h)anthracene) at concentrations greater than their groundwater cleanup target levels ("GCTLs"). 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 System is currently responding to comments raised by the FDEP.

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.

Wholesale and Retail Electric Restructuring

Energy Policy Act of 1992

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

The energy efficiency title of the 1992 Energy Policy Act required states and utilities to consider adopting integrated resource planning ("IRP"), which allows utility investments in conservation and other DSM techniques to be at least as profitable as supply investments. The FPSC has adopted IRP as a standard. The 1992 Energy Policy Act also established new efficiency standards in industrial and commercial equipment and lighting and required states to establish commercial and residential building codes with energy efficiency standards. Additionally, the 1992 Energy Policy Act required utilities to consider energy efficiency programs in their IRP's.

FERC Transmission Initiatives

On April 24, 1996, FERC issued two final rules to address and implement the transmission access provisions of the 1992 Energy Policy Act. Order Nos. 888 and 889, as amended by Order Nos. 888A and 889A in 1997, were intended to deny to public utilities any unfair advantage over competitors resulting from their ownership and control of transmission facilities and required FERC-jurisdictional public utilities to file pro forma, open access, nondiscriminatory transmission tariffs. In Order Nos. 890, 890-A and 890-B, issued (respectively) in February and December 2007 and June 2008, FERC reaffirmed and modified the requirements under Order Nos. 888 and 888-A, specifically, by modifying the transmission tariff provisions on (among other things) calculating available transfer capability, transmission planning, point-to-point transmission service options, energy imbalance service, rollover rights for long-term firm transmission service, and the price caps on capacity reassignments. Under the reciprocity requirement adopted in Order No. 888 and reaffirmed in Order No. 890, non-jurisdictional utilities (such as the System) must provide comparable transmission service as a condition of receiving service from jurisdictional utilities under the pro forma tariff. The System offers reciprocal transmission services and TEA is a separate marketing organization which allows the System to comply with these orders.

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

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

Energy Policy Act of 2005

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

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

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

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

Electric utilities registered as a Balancing Authority or Transmission Operator are required to undergo an on-site audit for compliance with the reliability standards once every three years. The System is registered as both a Balancing Authority and a Transmission Operator and is therefore subject to the 3-year on-site audit cycle. From December 12, 2011 through December 15, 2011, FRCC compliance auditors conducted an on-site audit for compliance with the standards and requirements associated with the System's functions within the Florida bulk power system as listed above. FRCC found no violations pursuant to this audit. GRU's next on-site reliability compliance audit will be in December of 2014.

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

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

INSURANCE

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

Under federal law now in effect pursuant to an amendment to the Atomic Energy Act enacted into law on August 28, 1988 (the "Price Anderson Act"), the public liability that may arise from a single nuclear incident is limited to the maximum amount of "financial protection" required of the licensees of a nuclear generating facility. "Financial protection" required is determined by reference to (x) the amount of private liability insurance licensees are required to maintain by the NRC, (y) the maximum amount that licensees may be assessed under an industry-wide retrospective premium program prescribed by the Atomic Energy Act and (z) the number of facilities licensed by the NRC. The Price Anderson Act provides for "financial protection," and thus a public liability limit in respect of a single nuclear incident, in an amount equal to approximately \$12.6 billion (effective January 1, 2010, and based on 104 licensed nuclear reactors) for all persons who may be liable in respect thereof, subject to further increases to reflect the effect of (i) inflation, (ii) the licensing for operation of additional nuclear reactors, and (iii) any increases in the amount of commercial liability insurance required to be maintained by the NRC. Public liability claims from an insured nuclear incident that exceed \$375 million (currently available through commercial insurers) would be covered by a required pro-rata assessment under the retrospective rating program equal to \$111.9 million per licensed nuclear reactor per occurrence (subject to an annual payment limit of \$17.5 million per reactor). Under these provisions, the City's share (based on its 1.4079% ownership interest in CR-3) of the maximum potential assessment under the retrospective premium program would be approximately \$1,575,440 per incident but would be limited to approximately \$246,382 per year for each such incident (in each case assuming that the other CR-3 participants were to contribute their respective shares of such assessments). In addition, if the funds provided by the retrospective rating program and primary insurance were to be insufficient to satisfy public liability claims and legal costs arising from a single nuclear incident, the licensees of each nuclear reactor would be subject to a surcharge of up to 5% of the retrospective premium then applicable to satisfy such claims and costs. Under this eventuality, the City's additional share would be limited to approximately \$11,000. Retrospective premiums are payable by the CR-3 participants irrespective of the location of the nuclear incident and the number of nuclear incidents that occur in any year (albeit subject to the \$17,500,000 annual limit for each incident). According to information provided by PEF as principal owner of CR-3, the City's ownership interest in CR-3 is covered by various insurance policies maintained by PEF. In accordance with the provisions of the System's participation agreement with PEF, PEF is required to name the System as an additional named insured on all insurance policies relating to CR-3. Under this arrangement, the System pays insurance premiums and maintains liability coverage based on its 1.4079% interest in CR-3. NEIL provides primary coverage for property damage at CR-3 in an amount equal to \$500 million. In addition to primary coverage, NEIL also provides decontamination, premature decommissioning and excess property insurance in the amount of \$1.750 billion, resulting in total nuclear decontamination, premature decommissioning and property damage coverage of \$2.250 billion. In accordance with a settlement agreement reached with Duke, the City will transfer its ownership interests in CR-3 and the requisite Decommissioning Fund to Duke. The ownership transfer requires approval by the NRC. Upon NRC approval of ownership transfer, Duke will agree to be responsible for all future costs and liabilities relating to CR-3 including decommissioning costs. See "THE ELECTRIC SYSTEM – Energy Supply System – *Generating Stations – Crystal River 3 (Retired)*" for a more detailed discussion of the status of CR- 3 and its decommissioning.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel to the City ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2014 Series A/B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the 2014 Series A/B Bonds is not a specific preference item for purposes of the federal individual or

corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel with respect to the 2014 Series A/B Bonds is set forth in APPENDIX F hereto.

To the extent the issue price of the 2014 Series A/B Bonds of any maturity of either Series is less than the amount to be paid at maturity of such 2014 Series A/B Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2014 Series A/B Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the 2014 Series A/B Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of the 2014 Series A/B Bonds of a particular Series and maturity is the first price at which a substantial amount of such Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to the 2014 Series A/B Bonds of any Series and maturity accrues daily over the term to maturity of such 2014 Series A/B Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2014 Series A/B Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2014 Series A/B Bonds. Beneficial Owners of the 2014 Series A/B Bonds should consult their own tax advisors with respect to the tax consequences of ownership of the 2014 Series A/B Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2014 Series A/B Bonds in the original offering to the public at the first price at which a substantial amount of the 2014 Series A/B Bonds of the same Series and maturity is sold to the public.

2014 Series A/B Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

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 2014 Series A/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 2014 Series A/B Bonds will not be included in federal gross income. (See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Special Provisions Relating to 2014 A/B Bonds" in APPENDIX D hereto.) Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2014 Series A/B Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2014 Series A/B Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the 2014 Series A/B Bonds may adversely affect the value of, or the tax status of interest on, the 2014 Series A/B Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the 2014 Series A/B Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the 2014 Series A/B Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2014 Series A/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. For example, Representative Dave Camp, Chair of the House Ways and Means Committee released draft legislation that would subject interest on the 2014 Series A/B Bonds to a federal income tax at an effective rate of 10% or more for individuals, trusts, and estates in the highest tax bracket, and the Obama Administration proposed legislation that would limit the exclusion from gross income of interest on the 2014 Series A/B Bonds to some extent for high income individuals. 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 2014 Series A/B Bonds. Prospective purchasers of the 2014 Series A/B Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2014 Series A/B Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2014 Series A/B Bonds ends with the issuance of the 2014 Series A/B Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the 2014 Series A/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 2014 Series A/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 2014 Series A/B Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

UNDERWRITING

J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated Goldman, Sachs & Co. and BMO Capital Markets (collectively, the "Underwriters") are purchasing the 2014 Series A/B Bonds from the City at a price of \$_____ (which represents the \$_____ aggregate principal amount of the 2014 Series A/B Bonds, plus/ less a net original issue premium/ discount of \$_____ and less an underwriters' discount of \$_____). The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all the 2014 Series A/B Bonds if any 2014 Series A/B Bonds are purchased. The Underwriters have furnished the information on the inside cover page of this Official Statement pertaining to the offering prices of the 2014 Series A/B Bonds. The 2014 Series A/B Bonds may be offered and sold to certain dealers (including the Underwriters and other dealers depositing such 2014 Series A/B Bonds into investment trusts) at prices lower than such public offering prices, and such public offering prices may be changed from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement 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 Underwriters do not guarantee the accuracy or completeness of such information.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the 2014 Series A/B Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL will purchase 2014 Series A/B Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Certificate to be executed by the City simultaneously with the delivery of the 2014 Series A/B Bonds (the "Continuing Disclosure Certificate"), the City will covenant for the benefit of the Holders and the "Beneficial Owners" (as defined in the Continuing Disclosure Certificate) of the 2014 Series A/B Bonds to provide certain financial information and operating data relating to the System by not later than April 30, commencing with the report for the fiscal year ending September 30, 2014 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events with respect to the 2014 Series A/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 form of the Continuing Disclosure Certificate attached hereto as APPENDIX G. These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5) (the "Rule").

As will be provided in the Continuing Disclosure Certificate, if the City fails to comply with any provision of the Continuing Disclosure Certificate, the remedies of any Holder or "Beneficial Owner" of the 2014 Series A/B Bonds will be limited to taking such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City to comply with its obligations under the Continuing Disclosure Certificate. "Beneficial Owner" will be defined in the Continuing Disclosure Certificate to mean any person holding a beneficial ownership interest in 2014 Series A/B Bonds through nominees or depositories (including any person holding such interest through the book-entry only system of The Depository Trust Company ("DTC")). IF ANY PERSON SEEKS TO CAUSE THE CITY TO COMPLY WITH ITS OBLIGATIONS UNDER THE CONTINUING DISCLOSURE CERTIFICATE, IT WILL BE THE RESPONSIBILITY OF SUCH PERSON TO DEMONSTRATE THAT IT IS A "BENEFICIAL OWNER" WITHIN THE MEANING OF THE CONTINUING DISCLOSURE CERTIFICATE.

As described in APPENDIX A hereto, upon initial issuance, the 2014 Series A/B Bonds will be issued in book-entry only form through the facilities of DTC, and the ownership of one fully registered 2014 Series A/B Bond for each maturity of each series, in the aggregate principal amount thereof, will be registered in the name of Cede & Co., as nominee for DTC. For a description of DTC's current procedures with respect to the enforcement of bondholders' rights, see "BOOK-ENTRY ONLY SYSTEM" in APPENDIX A hereto.

With respect to the 2014 Series A/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 __, 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 2014 Series A/B Bonds have received ratings of _____, _____ and _____ from S&P, Moody's and Fitch, respectively.

An explanation of the significance of any rating or outlook may be obtained only from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007; Standard & Poor's, 55 Water Street, New York, New York 10041; and Fitch Ratings, One State Street Plaza, New York, New York 10004. Such rating agencies may have obtained and considered information and material which have not been included has not been included in this Official Statement. 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 or outlooks will be in effect for any given period of time or that such ratings or outlooks 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 Underwriters nor the City have undertaken any responsibility after issuance of the 2014 Series A/B Bonds to assure the maintenance of the rating or to oppose any such revision or withdrawal. Any such downward revision or withdrawal of any ratings or outlooks may have an adverse effect on the market price of the 2014 Series A/B Bonds.

LITIGATION

There is no litigation or other proceeding pending or, to the knowledge of the City, threatened in any court, agency or other administrative body (either state or federal) in any way questioning or affecting (i) the proceedings under which the 2014 Series A/B Bonds were issued, (ii) the validity of any provision of the 2014 Series A/B Bonds or the Resolution, (iii) the pledge by the City of the Trust Estate under the Resolution, (iv) the legal existence of the City or (v) the authority of the City to own and operate the System and to set utility rates.

On November 22, 2011, a lawsuit was filed regarding the FIT program, specifically in regard to the initial and supplemental 2011 random FIT lotteries that were utilized to determine the award of FIT capacity contracts for the purchase of solar generated energy under the program. See "THE ELECTRIC SYSTEM – Future Power Supply – *Solar Feed-In-Tariff*" herein for a description of the FIT. The plaintiff in such action sought a declaratory judgment, injunctive relief, and alleged a violation of the Florida Government-in-the-Sunshine Law (the "Sunshine Law") in regard to issues arising out of the initial and supplemental solar FIT lotteries. Summary Final Judgment was entered by the Circuit Court on August 26, 2013 in favor of the System. On September 12, 2013, upon motion of the plaintiff the Circuit Court granted rehearing on the issue of the legality of the lottery only and both the plaintiff and the System filed supplemental memoranda. The System filed a motion for award of attorney's fees for the defense of the alleged Sunshine Law Violations. On January 8, 2014, the Circuit Court issued an order that reaffirmed that the System did not conduct an illegal lottery and reaffirming the Summary Final Judgment entered August 26, 2013. The court denied the System's motion for award of attorney's fees for defense of the alleged Sunshine Law Violation. On February 4, 2014, the plaintiff provided Notice of Appeal to the First District Court of Appeal in and for the State of Florida. Oral Argument before the first DCA was held on October 23, 2014. On October 24, 2014, the First DCA issued an order affirming the Circuit Court decision in favor of the System and such order became final on November 12, 2014. **[Update to reflect appeals period to Fl. Supreme Court if necessary]** Due to the uncertainties of litigation, the System, at this stage, cannot offer an opinion as to likely outcomes of the litigation or the effect

thereof. In the event, however, that this action is determined adversely to the System, Management believes that such determination will not have a material adverse effect on the financial condition of the System.

At the March 13, 2014, Regional Utilities Committee (the "RUC") meeting, a citizen (the "Citizen") questioned, among other things, the legality of the City's application of the State's gross receipts tax (the "Gross Receipts Tax"), the City's Public Service Tax and the City's surcharge on GRU customers outside of the City limits (the "City Surcharge"). GRU collects and remits the Gross Receipts Tax to the State and collects and remits the Public Service Tax to the City. The City Surcharge on water, wastewater and gas services is deposited in the GRU enterprise fund and becomes revenue that is subject to the transfer formula established under the transfer agreement between the City and GRU described under "MANAGEMENT DISCUSSION OF SYSTEM OPERATIONS – Transfer to General Fund" herein. The City Surcharge on electric utility services is retained as revenue of the electric system. In addition to allegations regarding the Gross Receipts Tax remitted to the State, the Citizen has claimed that GRU's application of the Public Service Tax and the City Surcharge to (i) the Gross Receipts Tax portion of total charges on a customer's bill and (ii) the electric, water and gas charges on a customer's bill that constitute a base customer charge as opposed to a consumption charge (the "Customer Charges"), are each unlawful (collectively, the "Alleged Overcharges"). The Citizen, an attorney representing himself and several other utility customers (the "Claimants") filed refund requests of the Alleged Overcharges. To date, the refund requests reviewed by GRU staff have been denied. Pursuant to Section 166.235, Florida Statutes, the Claimants having exhausted the administrative process for seeking a refund of the Public Service Taxes paid, may now file a legal action in court. To date, the City has not been served in any such legal action. Although no court action has been filed, the System is unable to determine at this time whether any such action may be filed in the future by the Claimants or others related to the Alleged Overcharges. In addition, the Citizen has filed a complaint with the Florida Attorney General's volunteer program "Seniors vs. Crime" ("SVC") regarding the collection of the Public Service Tax (SVC Case File #AL00395). In correspondence from the SVC to GRU, the SVC has stated that GRU should consider refunding approximately \$10.4 million in alleged over collected Public Service Tax.

GRU has represented to the City that it believes that the manner in which GRU interprets and applies the Gross Receipts Tax law, the Public Service Tax law and the City Ordinance pursuant to which the City Surcharge is levied, is consistent with utility practices throughout the State and has been carried out in good faith reliance on the interpretation of existing laws. It cannot be determined what the outcome of any legal action, if filed, would be or the effect on (i) future collections by the City of the Public Service Tax if certain charges for services were no longer taxable or (ii) future or previous transfers to the City from GRU if certain charges for services were no longer subject to the City Surcharge. However, the City does not believe any outcome would adversely affect the City's ability to pay debt service on the Bonds.

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

APPROVAL OF LEGAL PROCEEDINGS

The validity of the 2014 Series A/B Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel to the City. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX F hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the City by Nicole M. Shalley, Esq., Gainesville, Florida, City Attorney and Holland & Knight LLP, Lakeland, Florida, Disclosure Counsel to the City. Certain legal matters will be passed upon for the Underwriters by Nixon Peabody LLP, Counsel to the Underwriters.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of (a) the mathematical computations of the adequacy of the principal of and interest on the Government Obligations and any moneys to be on deposit in the Escrow Account to provide for the payment when due of the interest on and the redemption price of the Refunded Bonds and (b) the mathematical computations supporting the conclusion that the 2014 Series A/B Bonds are not "arbitrage bonds" under the Code will be verified by GNP Services, CPA, PA (the "Verification Agent"). Such verifications will be based upon certain public information supplied to the Verification Agent by or on behalf of the City.

INDEPENDENT AUDITORS

The financial statements of the System as of September 30, 2012 and 2013 and for the years then ended, included in APPENDIX B hereto, have been audited by Ernst & Young LLP, independent auditors, as stated in their report appearing therein. Ernst & Young LLP has not been engaged to perform and has not performed, since the date of that report, any procedures on the financial statements addressed in that report. Ernst & Young LLP also has not performed any procedures relating to this Official Statement.

FINANCIAL ADVISOR

Public Financial Management, Inc. is serving as Financial Advisor to the City with respect to the issuance and sale of the 2014 Series A/B Bonds. The Financial Advisor assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the 2014 Series A/B Bonds and provided other advice. The Financial Advisor will not engage in any underwriting activities with regard to the issuance and sale of the 2014 Series A/B Bonds. 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 Official Statement and are not obligated to review or ensure compliance with continuing disclosure undertakings.

DISCLOSURE REQUIRED BY FLORIDA BLUE SKY REGULATIONS

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 2014 Series A/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 OFFICIAL STATEMENT

The references, excerpts, and summaries of all documents, statutes, and information concerning the City and certain reports 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 document for full and complete statements of all matters of fact relating to the 2014 Series A/B Bonds, the security for the

payment of the 2014 Series A/B Bonds and the rights and obligations of the owners thereof and to each such statute, report or instrument.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Neither this Official Statement nor any statement that may have been made verbally or in writing is to be construed as a contract with the owners of the 2014 Series A/B Bonds.

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

AUTHORIZATION OF OFFICIAL STATEMENT

The execution and delivery of this Official Statement has been duly authorized and approved by the City. At the time of delivery of the 2014 Series A/B Bonds, the City will furnish a certificate to the effect that nothing has come to its attention which would lead it to believe that the Official Statement (other than information herein related to DTC, the book-entry only system of registration 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 the Official Statement is intended to be used, or which is necessary to make the statements contained therein, in the light of the circumstances under which they were made, not misleading.

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

CITY OF GAINESVILLE, FLORIDA

By _____

Interim General Manager for Utilities

APPENDIX A
BOOK-ENTRY ONLY SYSTEM

BOOK-ENTRY ONLY SYSTEM

The 2014 A/B Bonds will be available only in book-entry form. DTC will act as the initial securities depository for the 2014 A/B Bonds. The 2014 A/B Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate for each series will be issued for each maturity of the 2014 A/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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants (the "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 bond 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 (the "Indirect Participants" and together with Direct Participants, the "DTC Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2014 A/B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for such 2014 A/B Bonds on DTC's records. The ownership interest of each actual purchaser of each 2014 A/B Bond (the "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 2014 A/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 2014 A/B Bonds, except in the event that use of the book-entry system for the 2014 A/B Bonds is discontinued.

SO LONG AS CEDE & CO. (OR ANY OTHER NOMINEE REQUESTED BY DTC) IS THE REGISTERED OWNER OF THE 2014 A/B BONDS AS NOMINEE FOR DTC, REFERENCES HEREIN TO THE HOLDERS OR REGISTERED OWNERS OR OWNERS OF THE 2014 A/ BONDS SHALL MEAN CEDE & CO. (OR SUCH OTHER NOMINEE), AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS.

To facilitate subsequent transfers, all 2014 A/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 2014 A/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 2014 A/B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2014 A/B Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

The City, the Trustee, the Bond Registrar and the Paying Agent may treat DTC (or its nominee) as the sole and exclusive owner of the 2014 A/B Bonds registered in its name for the purpose of: payment of the principal or redemption price of or interest on the 2014 A/B Bonds; selecting 2014 A/B Bonds and portions thereof to be redeemed; giving any notice permitted or required to be given to Holders under the Resolution including any notice of redemption; registering the transfer of 2014 A/B Bonds; obtaining any consent or other action to be taken by Holders; and for all other purposes whatsoever, and shall not be affected by any notice to the contrary. The City, the Trustee, the Bond Registrar, the Paying Agent and the Underwriters (other than in their capacity, if any, as Direct Participants or Indirect Participants) shall not have any responsibility or obligation to any Direct Participant, any person claiming a beneficial ownership interest in the 2014 A/B Bonds under or through DTC or any Direct Participant, or any other person which is not shown on the registration books of the City (kept by the Bond Registrar) as being a Holder, with respect to: the accuracy of any records maintained by DTC or any Direct or Indirect Participant regarding ownership interests in the 2014 A/B Bonds; the payment by DTC or any Direct or Indirect Participant of any amount in respect of the principal or redemption price of or interest on the 2014 A/B Bonds; the delivery to any Direct or Indirect Participant or any Beneficial Owner of any notice which is permitted or required to be given to Holders under the Resolution including any notice of redemption; the selection by DTC or any Direct or Indirect Participant of any person to receive payment in the event of a partial redemption of the 2014 A/B Bonds; or any consent given or other action taken by DTC as a Holder of the 2014 A/B Bonds.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2014 A/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 securities, such as the 2014 A/B Bonds, are credited on the record date (identified in a listing attached to the Omnibus Proxy).

NEITHER THE CITY NOR THE TRUSTEE NOR THE BOND REGISTRAR NOR THE PAYING AGENT NOR THE UNDERWRITERS (OTHER THAN IN THEIR CAPACITY, IF ANY, AS DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS) WILL HAVE ANY OBLIGATION TO THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS AND THE PERSONS FOR WHOM THEY ACT RELATING TO THE MAKING OF ANY DEMAND BY CEDE & CO. AS THE REGISTERED OWNER OF THE 2014 A/B BONDS, THE ADHERENCE TO SUCH PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

Principal or redemption price of and interest payments on the 2014 A/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, the Trustee or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the City, the Trustee or the Paying Agent, as the case may be,

subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal or redemption price and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent; disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

As long as the book-entry system is used for the 2014 A/B Bonds, the City or the Trustee, as applicable, will give or cause to be given any notice of redemption or any other notices required to be given to Holders of 2014 A/B Bonds only to DTC. Any failure of DTC to advise any Direct Participant, or of any Direct Participant to notify any Indirect Participant, or of any Direct or Indirect Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the 2014 A/B Bonds called for such redemption, or of any other action premised on such notice.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2014 A/B Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2014 A/B Bonds such as redemptions, defaults, and proposed amendments to the Resolution. For example, Beneficial Owners of 2014 A/B Bonds may wish to ascertain that the nominee holding the 2014 A/B Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

As long as the book-entry system is used for the 2014 A/B Bonds, redemption notices shall be sent only to DTC. If less than all of the 2014 A/B Bonds of a particular maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the 2014 A/B Bonds of such maturity to be redeemed.

NEITHER THE CITY NOR THE TRUSTEE NOR THE BOND REGISTRAR NOR THE PAYING AGENT NOR THE UNDERWRITERS (OTHER THAN IN THEIR CAPACITY, IF ANY, AS DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS) WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES, WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS.

For every transfer and exchange of a beneficial ownership in the 2014 A/B Bonds, a Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

Discontinuation of the Book-Entry Only System. DTC may discontinue providing its services as depository with respect to the 2014 A/B Bonds at any time by giving reasonable notice to the City or the Trustee. In addition, if the City determines that (i) DTC is unable to discharge its responsibilities with respect to the 2014 A/B Bonds, or (ii) continuation of the system of book-entry only transfers through DTC is not in the best interests of the Beneficial Owners of the 2014 A/B Bonds or of the City, the City may, upon satisfaction of the applicable procedures of DTC with respect thereto, terminate the services of DTC with respect to the 2014 A/B Bonds. Upon the resignation of DTC or determination by the City that DTC is unable to discharge its responsibilities, the City may, within ninety days, appoint a successor depository. If no such successor is appointed or the City determines to discontinue the book-entry only system, 2014 A/B Bond certificates will be printed and delivered. Transfers and exchanges of 2014 A/B Bonds shall thereafter be made as provided in the Resolution.

If the book-entry only system is discontinued with respect to the 2014 A/B Bonds, the persons to whom 2014 A/B Bond certificates are delivered will be treated as "Holders" of Bonds for all purposes of the Resolution including without limitation the payment of principal, premium, if any, and interest on 2014 A/B Bonds, the redemption of 2014 A/B Bonds, and the giving to the City or the Trustee of any notice, consent, request or demand pursuant to the Resolution for any purpose whatsoever. In such event, interest on the 2014 A/B Bonds will be payable by check or draft of the Paying Agent mailed to such Holders at the addresses shown on the registration books maintained on behalf of the City, and the principal and redemption price of all 2014 A/B Bonds will be payable at the principal corporate trust office of the Paying Agent.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable. No representation is made herein by the City or the Underwriters as to the accuracy, completeness or adequacy of such information, or as to the absence of material adverse changes in such information subsequent to the date of the Official Statement to which this APPENDIX A is attached.

APPENDIX B
AUDITED FINANCIAL STATEMENTS

APPENDIX C
GENERAL INFORMATION REGARDING THE CITY OF GAINESVILLE
AND ALACHUA COUNTY

**GENERAL INFORMATION REGARDING
THE CITY OF GAINESVILLE AND ALACHUA COUNTY**

Location

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

Organization and Administration

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

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

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

Population

As of April 2010, the United States Census Bureau reported the City’s population to have been 124,354, while Alachua County’s population was 247,336 and Florida’s population was 18,801,310. The Bureau of Economic and Business Research (“BEBR”) at the University of Florida (“UF”) estimated a 2014 population of 250,730 in the County. As of April 2014, an estimated 125,661 persons resided within the City limits. The following tables depict official historical population growth of the City, Alachua County and the State of Florida.

Population Growth

| <u>Year</u> | City of Gainesville <u>Population⁽¹⁾</u> | Percentage <u>Increase</u> | Alachua County <u>Population⁽²⁾</u> | Percentage <u>Increase</u> | State of Florida <u>Population⁽²⁾</u> | Percentage <u>Increase</u> |
|-------------|---|-------------------------------|--|-------------------------------|---|-------------------------------|
| 2014 | 125,661 | -- | 250,730 | -- | 19,259,543 | -- |
| 2015 | 126,918 | 1.00% | 252,600 | 0.75% | 19,747,200 | 2.53% |
| 2020 | 133,392 | 5.10 | 265,700 | 5.19 | 21,149,700 | 7.10 |
| 2025 | 140,196 | 5.10 | 278,200 | 4.70 | 22,443,000 | 6.12 |
| 2030 | 147,347 | 5.10 | 289,200 | 3.95 | 23,609,000 | 5.20 |
| 2035 | 154,864 | 5.10 | 298,600 | 3.25 | 24,654,000 | 4.43 |
| 2040 | 162,763 | 5.10 | 306,800 | 2.75 | 25,603,600 | 3.85 |

⁽¹⁾ City population growth projected at 1% per year.

⁽²⁾ Using Medium estimates per Bureau of Business and Economic Research

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

Between 2002 and 2012, compound average annual growth rates for Gainesville, Alachua County and Florida were as follows:

| | <u>Compound Average Annual Growth Rate</u> |
|----------------------|---|
| Gainesville | 3.7% |
| Alachua County | 3.8 |
| Florida | 2.8 |

During the past decade, Alachua County's population has grown at about the same rate as the state's population. The City of Gainesville has increased its population at a faster rate largely due to a series of annexations of an area that was previously unincorporated. Alachua County has a younger population than Florida in general, with 88% of Alachua County's residents under the age of 65 versus 81.3 of statewide residents being less than 65 years of age. These demographics, combined with Alachua County's employment characteristics, tend to make the local economy more stable than Florida as a whole.

Economy

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

The tables below display the size and composition of the area's employment and its major employers. This economic composition provides the strength and stability, which characterize the region's economy. Fluctuations in the national economy have but little impact on Alachua County's major employers. As a result, the County has one of the lowest unemployment rates in Florida. Local, state and national annual average unemployment rates for September 2014 from the U.S. Bureau of Labor Statistics are compared below.

| | Unemployment Rates |
|-------------------------------|-------------------------------|
| Gainesville MSA (local) | 4.9% |
| Florida (state) | 6.1 |
| United States (national)..... | 5.9 |

**GAINESVILLE MSA TOTAL
NON-AGRICULTURAL EMPLOYMENT
(JANUARY 1, 2013)**

| <u>Industry</u> | <u>Percentage of Workforce</u> |
|------------------------------------|--------------------------------|
| Construction | 4.5% |
| Manufacturing | 4.0 |
| Trade | 12.2 |
| Information | 1.6 |
| Financial & Real Estate Activities | 5.3 |
| Professional & Business Services | 4.2 |
| Educational Services | 12.7 |
| Health Care | 20.0 |
| Leisure & Hospitality | 10.6 |
| Science & Technology | 5.1 |
| Other Services | 5.3 |
| Government | 14.5 |

Source: U.S. Bureau of Census.

**GAINESVILLE MSA
TEN LARGEST EMPLOYERS
(SEPTEMBER 30, 2013)**

| <u>Firm</u> | <u>Product/Business</u> | <u>Employees</u> |
|---|-------------------------|------------------|
| University of Florida | Education | 12,780 |
| UF Health | Health Care | 12,000 |
| Alachua County School Board | Education | 4,200 |
| Alachua Veterans Affairs Medical Center | Health Care | 3,500 |
| City of Gainesville | Municipal Government | 2,270 |
| Publix Supermarkets | Grocer | 2,160 |
| North Florida Regional Medical Center | Health Care | 2,100 |
| Gator Dining Services | Food Services | 1,200 |
| Nationwide Insurance Company | Insurance | 950 |
| Wal-Mart Stores | Retail | 910 |

Source: Gainesville Area Chamber of Commerce.

Educational Activity

UF is a major, public, comprehensive, land-grant, research university. It is Florida's largest university, the nation's fourth largest, and one of only 17 public, land-grant universities that belongs to the Association of American Universities. The UF campus covers 2,000 acres and includes more than 900 buildings. UF enrolls approximately 50,000 students annually, has 16 colleges and more than 150

research centers and institutes. It offers more than 100 undergraduate majors and almost 200 graduate programs, as well as professional degree programs in dentistry, law, medicine, pharmacy and veterinary medicine. UF was awarded \$619 million in sponsored research in 2010-2011. Cultural facilities at UF include The Florida Museum of Natural History, the Harn Museum of Art, the Phillips Center for the Performing Arts, the University Auditorium, the Constans Theatre, and the Baughman Center. UF athletics have ranked among the nation's 10 best programs in each of the last 26 years. Florida has won a total of 25 team national championships, including national championships in football in 1996, 2006 and 2008, and national championships in men's basketball in 2006 and 2007.

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

Medical Activity

Gainesville is a regional health care hub with four hospitals and nearly 2,000 practicing physicians and surgeons. North Florida Regional Medical Center ("NFRMC") is a 445 bed, full service medical and surgical acute care center. The Regional Doctors Office Park adjoins NFRMC and includes offices and clinics for over 258 physicians. The Veteran's Administration Hospital (the "VA") includes 274 beds. In September 2011, the VA added a 254,000 square foot five story tower called the Malcom Randall BA Medical Center Bed Tower that provides 256 private rooms and space for veterans and their family members. A 637 space parking garage was also constructed at the VA in 2011. The UF Health Science Center encompasses the 852 bed Shands Teaching Hospital, and the Colleges of Medicine, Nursing, Dentistry, and Health Related Professions. The Shands at UF Cancer Hospital is a 500,000 square foot facility with 192 private inpatient beds that began operation in November 2009.

Research and Development

The Innovation District is an area of approximately 80 acres between 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. 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.

Retirement Plans

The City sponsors and administers two single-employer retirement plans and a single-employer disability plan, which are accounted for in separate pension trust funds in the fiduciary category.

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

The Employees' Plan is a contributory defined benefit pension plan that covers all permanent employees of the City, including GRU, except certain personnel who elected to participate in the Defined Contribution Plan (which is described below) and who were grandfathered into that plan, and police officers and firefighters who participate in the Consolidated Plan. The Employees' Plan provides retirement and death benefits to plan members and beneficiaries. 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. This plan and any amendments were enacted through an ordinance of the Commission. In October 2002, the Board of Trustees approved allowing participants to buy back City years of service at its actuarial valuation. The contribution requirements of plan members and the City are established and may be amended by an ordinance enacted by the Commission. Employees' Plan members are required to contribute 5.0% of their annual covered salary. The City is required to contribute at an actuarially determined rate which equals 14.92% of covered payroll for the fiscal year ending September 30, 2015. The total contributions by GRU, including amortization of prior service costs, were \$6.2 million and \$5.4 million for the years ended September 30, 2013 and 2012, respectively.

The Consolidated Plan is a contributory defined benefit pension plan that covers City sworn police officers and firefighters. The Consolidated Plan provides retirement and death benefits to plan members and beneficiaries. This plan and any amendments were enacted through an ordinance by the Commission. The contribution requirements of plan members and the City are established and may be amended by an ordinance enacted by the Commission. Consolidated Plan members are required to contribute 7.50% of their annual covered salary for police and 9.00% of their annual covered salary for fire. The City is required to contribute at an actuarially determined rate for the fiscal year ended September 30, 2015 which equals 14.33% of covered payroll for police and 17.32% of covered payroll for fire. In addition, State contributions, which totaled \$1,170,024 in the fiscal year ended September 30, 2013, are also made to the plan on behalf of the City.

See the notes portion of “APPENDIX B – Audited Financial Statements” for further discussion of the City's defined benefit pension plans.

Retiree Health Care Plan

The City has established the Retiree Health Care Plan, 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 approximately 1,034 retirees, spouses and dependents receiving benefits and approximately 1,723 active participants. Of that total, 1,342 are not yet eligible to receive benefits. Ordinance No. 991457 of the City assigned the authority to establish and amend benefit provisions to the Commission. The cost of providing these benefits to GRU retirees was \$0.2 million for the fiscal years September 30, 2013 and 2012.

The City has chosen to self-insure the Retiree Health Care Plan, rather than purchasing insurance from an insurance carrier. “Self insurance” means that the City funds retiree medical plan expenses with money deposited into the retiree health insurance fund on a periodic basis based on actuarial estimates. On an annual basis, the health insurance premiums are calculated by the City and through an actuarial calculation. The bi-weekly contributions to the Retiree Health Care Plan are determined on a percentage of covered payroll basis. Pursuant to the Retiree Health Care Plan, deposits are made to the retiree health insurance fund established by the City and, together with premium payments made by retirees, gifts to the fund accepted by the City and earnings deposited into the fund, are disbursed only for the payment of premiums for retiree health insurance, retiree health care claim costs and costs associated with managing, administering and operating the fund.

APPENDIX D
SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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

Definitions

The following are summaries of certain definitions in the Resolution:

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

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

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

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

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

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

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

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

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

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

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

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

Commercial Paper Payment Plan means, with respect to any Series of Commercial Paper Notes and as of any time, the then current Commercial Paper Payment Plan for such notes contained in a certificate of an Authorized Officer of the City delivered on or prior to the date of the first issuance of such Commercial Paper Notes and setting forth the sources of funds expected to be utilized by the City to pay the principal of and interest on such Commercial Paper Notes or any subsequent certificate of an Authorized Officer of the City thereafter executed to reflect changes, if any, in the expectations of the City with respect to the sources of funds to be utilized to pay principal of and interest on such Commercial Paper Notes; *provided, however*, that if any Commercial Paper Payment Plan provides for the refunding of any Commercial Paper Note with proceeds of (a) Bonds other than Commercial Paper Notes or Medium-Term Notes or (b) Subordinated Indebtedness, in either such case, that the City intends to pay from Revenues, the principal of such Commercial Paper Note shall, for purposes of the Commercial Paper Payment Plan, be assumed to come due over a period commencing with the due date of the Commercial Paper Note and ending not later than the later of (x) the 30th anniversary of the first issuance of Commercial Paper Notes of such Series or (y) the 10th anniversary of the due date of the Commercial Paper Note to be refunded, in installments such that the principal and interest payable on

such Commercial Paper Note in each Fiscal Year in such period will be equal to the principal and interest payable on such Commercial Paper Note in each other Fiscal Year in such period.

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

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

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

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

Current Interest Commencement Date means, with respect to any particular Deferred Income Bonds, the date specified in the Supplemental Resolution authorizing such Bonds (which date must be

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

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

Debt Service Reserve Requirement means with respect to each subaccount, if any, in the Debt Service Reserve Account, the amount specified in the Supplemental Resolution pursuant to which such subaccount shall be established; *provided, however*, that if at any time the City at its option shall have

established one or more Reserve Deposits in connection with the issuance of any Additionally Secured Series of Bonds, the Debt Service Reserve Requirement for such Additionally Secured Series of Bonds as of any date of calculation shall be reduced by an amount equal to the sum of all Reserve Deposits not due and payable in such current or future Fiscal Year to which the calculation relates. For purposes of the foregoing calculation, it shall be assumed that Variable Rate Bonds will bear interest during such period at the greater of (i) the actual rate of interest then borne by such Bonds or (ii) the Certified Interest Rate applicable thereto.

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

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

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

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

(d) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by a nationally recognized rating agency in its highest rating category, and by at least one other nationally recognized rating agency

in either of its two highest rating categories, for comparable types of debt obligations so long as such securities evidence ownership of the right to payments of principal and/or interest on obligations described in clauses (a) and (b) hereof or obligations described in the foregoing clause (c), in any such case, which shall not be subject to redemption prior to their maturity other than at the option of the holder thereof or as to which an irrevocable notice of redemption of such obligations on a specified redemption date has been given and such obligations are not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof,

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

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

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

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

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

Medium-Term Note Payment Plan means, with respect to any installment of Medium-Term Notes and as of any time, the then current Medium-Term Note Payment Plan for such notes contained in a certificate of an Authorized Officer of the City delivered on or prior to the date of the first issuance of such Medium-Term Notes and setting forth the sources of funds expected to be utilized by the City to pay the principal of and interest on such Medium-Term Notes or any subsequent certificate of an Authorized Officer of the City thereafter executed to reflect changes, if any, in the expectations of the City with respect to the sources of funds to be utilized to pay principal of and interest on such Medium-Term Notes; *provided, however*, that if any Medium-Term Note Payment Plan provides for the refunding of any Medium-Term Note with proceeds of (a) Bonds other than Commercial Paper Notes or Medium-Term Notes or (b) Subordinated Bonds, in either such case, that the City intends to pay from Revenues, the principal of such Medium-Term Note shall, for purposes of the Medium-Term Note Payment Plan, be assumed to come due over a period commencing with the due date of the Medium-Term Note and ending not later than the later of (x) the 30th anniversary of the first issuance of Medium-Term Notes of such Series or (y) the 10th anniversary of the due date of the Medium-Term Note to be refunded, in installments such that the principal and interest payable on such Medium-Term Note in each Fiscal Year

in such period will be equal to the principal and interest payable on such Medium-Term Note in each other Fiscal Year in such period.

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

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

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

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

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

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

Refundable Principal Installment means any Principal Installment for any Series of Bonds, including Variable Rate Bonds, any Commercial Paper Notes or any Medium-Term Notes, which the City intends to pay with moneys which are not Revenues, provided that (i) in the case of Bonds other than

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

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

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

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

System means the entire combined and consolidated electric system, water system, wastewater system, natural gas system and telecommunications system of the City, now existing and hereafter

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

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

Pledge

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

Application of Revenues

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

| <u>Funds</u> | <u>Held By</u> |
|---------------------------------------|-----------------------|
| Revenue Fund | City |
| Rate Stabilization Fund..... | City |
| Debt Service Fund | Trustee |
| Subordinated Indebtedness Fund | Trustee |
| Utilities Plant Improvement Fund..... | City |

The Resolution also provides for the establishment of one or more funds that may be required from time to time by Federal, State or local regulations, by contractual obligations, or in order to operate the System in accordance with Prudent Utility Practice, so as to provide, among other things, for costs of decommissioning, retirement or disposal of Facilities for costs of nuclear waste storage and disposal including the cost of disposal of spent fuel, for maintaining financial responsibility for the closure of hazardous waste storage facilities, or for self insurance. Deposits into any such funds may be made only after the required deposits have been made into the funds specified above. Deposits into any such funds may be made only with amounts defined by the Resolution to be available for use by the City for any lawful purpose. If and when established, such funds shall not be governed by the Resolution and will not be pledged as security for the Bonds.

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

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

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

(2) *To the Debt Service Account and the Debt Service Reserve Account in the Debt Service Fund*, (i) for credit to the Debt Service Account, (a) the amount, if any, required so that the balance in said Account shall equal the Accrued Aggregate Debt Service as of the last day of the then current month, (b) payments received by the City from a Qualified Hedging Contract Provider pursuant to a Parity Hedging Contract Obligation and (c) the amount, if any, required so the City can pay all obligations payable out of the Debt Service Account in the current month; provided that, for the purposes of computing the amount to be deposited in said Account, there shall be excluded from the balance in said Account the amount, if any, set aside in said Account from the proceeds of Bonds (including amounts, if any, transferred thereto from the Construction Fund) for the payment of interest on Bonds less the amount of such proceeds to be applied in accordance with the Resolution to the payment of interest accrued and unpaid and to accrue on Bonds to the last day of the then current calendar month; and (ii) for credit to each separate subaccount in the Debt Service Reserve Account, the amount, if any, required so that the balance in each such subaccount shall equal the Debt Service Reserve Requirement related thereto including any amount required to be credited to any separate subaccount in the Debt Service Reserve Account to satisfy any Reserve Deposits, established for any Additionally Secured Series of Bonds as of the last day of the then current month (or, if the amount on deposit in the Revenue Fund shall not be sufficient to make the deposits required to be made pursuant to this clause (ii) with respect to all of the separate subaccounts in the Debt Service Reserve Account, then such amount on deposit in the Revenue Fund shall be applied ratably, in proportion to the amount necessary for deposit into each such subaccount).

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

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

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

Account shall fall below that required as above provided, the City shall within twelve months either (i) replace such surety bond, insurance policy, letter of credit or other similar obligation with a surety bond, insurance policy, letter of credit or other similar obligation which shall meet the above provided requirements or (ii) deposit into such separate subaccount in the Debt Service Reserve Account sufficient funds, or a combination of such alternatives, as shall provide that the amount in the separate subaccount in such Debt Service Reserve Account equals the Debt Service Reserve Requirement related thereto.

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

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

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

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

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

Construction Fund

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

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

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

Investment of Certain Funds and Accounts

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

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

Additional Bonds, Conditions to Issuance

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

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

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

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

Subordinated Indebtedness

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

Issuance of Other Indebtedness

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

Rate Covenant

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

Creations of Liens

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

Disposition of System

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

Insurance

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

Reconstruction; Application of Insurance Proceeds

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

Governmental Reorganization

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

Additional Utility Functions

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

Amendment of Resolution

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

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

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

The Resolution and the rights and obligations of the City and of the holders of the Bonds may be amended by a Supplemental Resolution with the written consent of the holders of a majority in principal amount in each case of (i) all Bonds then Outstanding, and (ii) in case less than all of the Series of Outstanding Bonds are affected, the Bonds of each Series so affected, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Installment, the Bonds of the particular Series and maturity entitled to the benefit of the Sinking Fund Installment. No such modification or amendment may (A) permit a change in the terms of

redemption or maturity or any installment of interest or a reduction in the principal, Redemption Price or rate of interest thereon without consent of each affected holder, or (B) reduce the percentages or otherwise affect the classes of Bonds the consent of the holders of which is required to effect any such modification or amendment. For purposes of the foregoing, the holders of Bonds may include the initial holders thereof regardless of whether such Bonds are being held for subsequent resale.

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

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

Defeasance

The lien of the Resolution, the pledge of the Trust Estate and each separate subaccount in the Debt Service Reserve Account in the Debt Service Fund, and all covenants, agreements and other obligations of the City under the Resolution will cease, terminate and become void and be discharged and satisfied whenever all Bonds are paid in full. If any Bonds are paid in full, such Bonds shall cease to be entitled to any lien, benefit or security under the Resolution and all covenants, agreements and obligations of the City to the holders of such Bonds shall cease, terminate and be discharged. Bonds are deemed to have been paid and are not entitled to the lien, benefit and security of the Resolution whenever the following conditions are met: (i) in case any Bonds are to be redeemed prior to their maturity, the City has given to the Trustee instructions in accordance with the Resolution to give notice of redemption therefor, (ii) there has been deposited with the Trustee either moneys or Defeasance Securities which, together with other moneys, if any, also deposited, will be sufficient to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on such Bonds, and (iii) in the event such Bonds are not subject to redemption within the next succeeding 60 days, the City has given the Trustee instructions in accordance with the Resolution to give notice to the holders of such Bonds that the above deposit has been made and that such Bonds are deemed to have been paid and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds.

Defeasance Securities described in clause (f) of the definition above may be included in the Defeasance Securities deposited with the Trustee for purposes of defeasance only if the determination as to whether the moneys and Defeasance Securities to be deposited with the Trustee would be sufficient to pay when due, either at the maturity date thereof or, in the case of any Bonds to be redeemed prior to the maturity date thereof, on the redemption date or dates specified in any notice of redemption to be published by the Trustee or in the instructions to publish a notice of redemption provided to the Trustee in accordance with the Resolution, the principal and Redemption Price, if applicable, and interest on the Bonds is made both on the assumption that the Defeasance Securities described in clause (f) of the

definition above were not redeemed at the option of the issuer prior to the maturity date thereof and on the assumption that such Defeasance Securities would be redeemed by the issuer thereof at its option on each date on which such option could be exercised and that as of such date or dates interest ceased to accrue on such Defeasance Securities and that the proceeds of such redemption would not be reinvested by the Trustee.

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

Events of Default; Remedies

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

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

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

No Bondholder has any right to institute any suit, action or proceeding for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless (1) such Bondholder previously has given the Trustee written notice of the Event of Default, (2) the holders of at least 25% in principal amount of the Bonds then Outstanding have filed a written request with the Trustee and have afforded the Trustee a reasonable opportunity to exercise its powers or institute such suit, action or proceeding, (3) there has been offered by such holders to the Trustee adequate security and indemnity against its costs, expenses and liability to be incurred and (4) the Trustee has refused to comply with such request within 60 days after receipt of such notice, request and

offer of indemnity. Nothing in the Resolution or the Bonds affects or impairs the City's obligation to pay the Bonds and interest thereon when due from the Trust Estate or the right of any Bondholder to enforce such payment.

Trustee and Paying Agents

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

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

In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, a successor may be appointed by the City by a duly executed written instrument signed by an Authorized Officer of the City, but if the City does not appoint a successor Trustee within 60 days, then by the Holders of a majority in principal amount of the Bonds then Outstanding, by an instrument or concurrent instruments in writing signed and acknowledged by such Bondholders or by their attorneys-in-fact duly authorized and delivered to such successor Trustee, notification thereof being given to the City and the predecessor Trustee. The City shall give notice of any such appointment made by it or the Bondholders by first class mail, postage prepaid, within 20 days after such appointment, to the Holders of all Outstanding Bonds, at their last addresses, if any, appearing upon the registration books of the City kept by the Bond Registrar.

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

Except as otherwise provided in a Supplemental Resolution authorizing Bonds for which Credit Enhancement is being provided, if not in default in respect of any of its obligations with respect to Credit Enhancement for the Bonds of a Series, or a maturity within a Series, the Credit Enhancer for, and not the actual Holders of, the Bonds of a Series, or a maturity within a Series, for which such Credit Enhancement is being provided, shall be deemed to be the Holder of Bonds of any Series, or maturity within a Series, as to which it is the Credit Enhancer at all times for the purpose of (i) giving any approval or consent to the effectiveness of any Supplemental Resolution or any amendment, change or modification of the Resolution as specified in the Resolution or any other provision thereof, which requires the written approval or consent of Holders; *provided, however*, that these provisions shall not apply to any change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or shall

change or modify any of the rights or obligations of any Fiduciary without its written assent thereto and (ii) giving any approval or consent, exercising any remedies or taking any other action in accordance with the provisions of the Resolution.

Reimbursement Obligations

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

Special Provisions Relating to Capital Appreciation Bonds

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

Special Provisions Relating to Deferred Income Bonds

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

Special Provisions Relating to Parity Reimbursement Obligations

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

Provisions Concerning Qualified Hedging Contracts

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

Commercial Paper Notes

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

Medium-Term Notes

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

Special Provisions Relating to 2014 A/B Bonds

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

"Tax Covenants. 1. The City covenants that it shall not take any action or inaction, or fail to take any action, or permit any action to be taken on its behalf or cause or permit any circumstance within its control to arise or continue, if any such action or inaction would adversely affect the exclusion from gross income for federal income tax purposes of the interest on the 2014 A/B Bonds under Section 103 of the Internal Revenue Code of 1986 and the applicable Treasury Regulations promulgated thereunder. Without limiting the generality of the foregoing, the City covenants that it will comply with the instructions and requirements of the Tax Certificate to be executed and delivered on the date of issuance of the 2014 A/B Bonds concerning certain matters pertaining to the use of proceeds of the 2014 A/B Bonds, including any and all exhibits attached thereto (the 'Tax Certificate'). This covenant shall survive payment in full or defeasance of the 2014 A/B Bonds.

2. In the event that at any time the City is of the opinion that for purposes of this Section it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee under the Resolution, the City shall so instruct the Trustee in writing as to the specific actions to be taken, and the Trustee shall take such actions as specified in such instructions.

3. Notwithstanding any provisions of this Section, if the City shall provide to the Trustee an Opinion of Counsel of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that any specified action required under this Section is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest on the 2014 A/B Bonds, the City and the Trustee may conclusively rely on such opinion in complying with the requirements of this Section and of the Tax Certificate, and the covenants hereunder shall be deemed to be modified to that extent.

4. Notwithstanding any other provision of the Resolution to the contrary, (a) upon the City's failure to observe or refusal to comply with the above covenants, the Holders of the 2014 A/B Bonds, or the Trustee acting on their behalf, shall be entitled to the rights and remedies provided to Bondholders under the Resolution, other than the right (which is hereby abrogated solely in regard to the City's failure to observe or refusal to comply with the covenants of this Section) to declare the principal of all 2014 A/B Bonds then outstanding, and the interest accrued thereon, to be due and payable and (b) neither the Holders of the Bonds of any Series other than the 2014 A/B Bonds, nor the Trustee acting on their behalf, shall be entitled to exercise any right or remedy provided to Bondholders under the Resolution based upon the City's failure to observe, or refusal to comply with, the above covenants."

APPENDIX E
DEBT SERVICE REQUIREMENTS

**DEBT SERVICE REQUIREMENTS ON OUTSTANDING BONDS
(GIVING EFFECT TO ISSUANCE OF 2014 SERIES A AND B BONDS)⁽¹⁾
(ACCRUAL BASIS)**

| Period Ending September 30, | Total Debt Service on Bonds Outstanding Prior to Issuance of 2014 Series A Bonds Series B Bonds) ⁽²⁾ | Less: Debt Service on 2014 Series A Refunded Bonds ⁽²⁾ | Plus: Debt Service on 2014 Series A Bonds | | | Total Debt Service on Bonds to be Outstanding After Issuance of 2014 Series A Bonds ⁽²⁾ |
|-----------------------------------|--|--|---|-------------|-------------|--|
| | | | Principal | Interest | Total | |
| 2015 | \$ 57,100,081 | \$ — | \$ — | \$ — | \$ — | \$ — |
| 2016 | 56,991,332 | — | — | — | — | — |
| 2017 | 56,790,959 | — | — | — | — | — |
| 2018 | 62,784,574 | — | — | — | — | — |
| 2019 | 62,743,623 | — | — | — | — | — |
| 2020 | 62,583,895 | — | — | — | — | — |
| 2021 | 58,637,606 | — | — | — | — | — |
| 2022 | 58,537,666 | — | — | — | — | — |
| 2023 | 58,416,681 | — | — | — | — | — |
| 2024 | 58,251,305 | — | — | — | — | — |
| 2025 | 57,233,229 | — | — | — | — | — |
| 2026 | 56,579,564 | — | — | — | — | — |
| 2027 | 57,524,518 | — | — | — | — | — |
| 2028 | 57,140,307 | — | — | — | — | — |
| 2029 | 57,017,846 | — | — | — | — | — |
| 2030 | 56,638,771 | — | — | — | — | — |
| 2031 | 56,567,290 | — | — | — | — | — |
| 2032 | 56,371,630 | — | — | — | — | — |
| 2033 | 57,932,959 | — | — | — | — | — |
| 2034 | 57,804,376 | — | — | — | — | — |
| 2035 | 57,686,450 | — | — | — | — | — |
| 2036 | 54,349,781 | — | — | — | — | — |
| 2037 | 54,061,801 | — | — | — | — | — |
| 2038 | 53,395,422 | — | — | — | — | — |
| 2039 | 52,700,767 | — | — | — | — | — |
| 2040 | 51,772,449 | — | — | — | — | — |
| 2041 | 17,254,900 | — | — | — | — | — |
| 2042 | 17,278,888 | — | — | — | — | — |
| | <u>\$ 1,522,148,670</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> |

(footnotes on following page)

(footnotes from previous page)

- (1) Columns and rows may not add due to rounding.
- (2) Debt service on the Outstanding Bonds (including the 2012 Series B Refunded Bonds) has been calculated based upon the following assumptions:
 - (a) Interest on the 2005 Series B Bonds has been calculated at the actual rates of interest borne by such Bonds. The amounts shown in this table do not take into account amounts payable by and to the City pursuant to the 2005 Series B Swap Transaction. See note (2) to the table under "OUTSTANDING DEBT" in the Official Statement to which this APPENDIX E is attached. To the extent that the City makes or receives net payments under the 2005 Series B Swap Transaction during any fiscal year, net debt service on the 2005 Series B Bonds will be greater or less than the respective amount shown in this table for such fiscal year.
 - (b) Interest on the 2005 Series C Bonds has been calculated at an assumed rate of 3.20% per annum, the fixed rate payable by the City under the 2005 Series C Swap Transaction. See note (4) to the table under "OUTSTANDING DEBT" in the Official Statement to which this APPENDIX E is attached. To the extent that amounts payable to the City under the 2005 Series C Swap Transaction during any fiscal year differ from interest payable on the 2005 Series C Bonds during such fiscal year, net debt service on the 2005 Series C Bonds will be greater or less than the respective amount shown in this table for such fiscal year.
 - (c) Interest on the 2006 Series A Bonds has been calculated at an assumed rate of 3.224% per annum, the fixed rate payable by the City under the 2006 Series A Swap Transaction. See note (5) to the table under "OUTSTANDING DEBT" in the Official Statement to which this APPENDIX E is attached. To the extent that amounts payable to the City under the 2006 Series A Swap Transaction during any fiscal year differ from interest payable on the 2006 Series A Bonds during such fiscal year, net debt service on the 2006 Series A Bonds will be greater or less than the respective amount shown in this table for such fiscal year.
 - (d) Interest on the 2007 Series A Bonds has been calculated at an assumed rate of 3.944% per annum, the fixed rate payable by the City under the 2007 Series A Swap Transaction. See note (6) to the table under "OUTSTANDING DEBT" in the Official Statement to which this APPENDIX E is attached. To the extent that amounts payable to the City under the 2007 Series A Swap Transaction during any fiscal year differ from interest payable on the 2007 Series A Bonds during such fiscal year, net debt service on the 2007 Series A Bonds will be greater or less than the respective amount shown in this table for such fiscal year.
 - (e) Interest on the 2008 Series B Bonds has been calculated at an assumed rate of 4.229% per annum, the fixed rate payable by the City under the 2008 Series B Swap Transactions. See note (7) to the table under "OUTSTANDING DEBT" in the Official Statement to which this APPENDIX E is attached. To the extent that amounts payable to the City under the 2008 Series B Swap Transactions during any fiscal year differ from interest payable on the 2008 Series B Bonds during such fiscal year, net debt service on the 2008 Series B Bonds will be greater or less than the respective amount shown in this table for such fiscal year.
 - (f) Reflects total interest on the 2009 Series B Bonds, which the City has designated as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009, and is not net of the 35% cash subsidy payments that the City expects to receive from the United States Treasury with respect to such Bonds.
 - (g) Reflects total interest on the 2010 Series B Bonds, which the City has designated as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009, and is not net of the 35% cash subsidy payments that the City expects to receive from the United States Treasury with respect to such Bonds.
 - (h) Net of capitalized interest funded from the proceeds of the 2010 Series A, B and C Bonds and expected interest earnings thereon.
 - (i) Interest on the 2012 Series B Bonds has been calculated at an assumed rate of approximately 3.25% per annum. See "PLAN OF FINANCE – The 2012 Series B Bonds" in the Official Statement to which this APPENDIX E is attached.
 - (j) For purposes of this table, it has been assumed that the 2012 Series B Refunded Bonds will be redeemed on August 2, 2012. See "PLAN OF FINANCE – The 2012 Series B Bonds" in the Official Statement to which this APPENDIX E is attached.

APPENDIX F
PROPOSED FORM OF OPINION OF BOND COUNSEL

APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon the delivery of the 2014 Series A/B Bonds, Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel to the City, proposes to render its final approving opinion with respect to the 2014 Series A/B Bonds in substantially the following form:

December __, 2014

City of Gainesville, Florida
Gainesville, Florida 32614-7117

City of Gainesville, Florida
Utilities System Revenue Bonds,
2014 Series A and 2014 Series B

Ladies and Gentlemen:

We have acted as bond counsel to the City of Gainesville, Florida (the “City”), a municipal corporation of the State of Florida, in connection with the issuance of \$_____ aggregate principal amount of Utilities System Revenue Bonds, 2014 Series A (the “2014 Series A Bonds”) and \$_____ aggregate principal amount of Utilities System Revenue Bonds, 2014 Series B (the “2014 Series B Bonds” and, together with the 2014 Series A Bonds, “2014 Series A and B Bonds”), issued pursuant to the Constitution and statutes of the State of Florida, and particularly Chapter 90-394, Laws of Florida, 1990, as amended, being the Charter of the City, Chapter 166, Part II, Florida Statutes, as amended, and other applicable provisions of law (collectively, the “Act”), and under and pursuant to Resolution No. R-83-27, duly adopted by the City on June 6, 1983, incorporating by reference and adopting a resolution entitled “Utilities System Revenue Bond Resolution” (the “Bond Resolution”), as heretofore supplemented, amended and restated, including as supplemented by a resolution duly adopted by the City on December __, 2014 incorporating by reference and adopting a resolution entitled “Twenty-Sixth Supplemental Utilities System Revenue Bond Resolution,” authorizing the 2014 Series A and B Bonds (such Bond Resolution as so supplemented, amended and restated, including as supplemented by the Twenty-Sixth Supplemental Utilities System Revenue Bond Resolution, being herein called the “Resolution”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

The Resolution provides that (a) the 2014 Series A Bonds are being issued for the stated purpose of (i) providing funds for the payment of a portion of the cost of acquisition and construction of certain improvements to the System and (ii) paying the costs of issuance of the 2014 Series A Bonds and (b) the 2014 Series B Bonds are being issued for the stated purpose of (i) providing a portion of the moneys required to refund certain of the City’s outstanding Utilities System Revenue Bonds and (ii) paying the costs of issuance of the 2014 Series B Bonds. The City heretofore has issued certain other Bonds under the Resolution and the City reserves the right to

issue additional Bonds under the Resolution on the terms and conditions and for the purposes stated therein. Under the provisions of the Resolution, all Outstanding Bonds and all Parity Hedging Contract Obligations shall rank equally as to security and payment from the Trust Estate.

In such connection, we have reviewed a certified copy of the Resolution, the Tax Certificate executed and delivered by the City on the date hereof in connection with the issuance of the 2014 Series A and B Bonds (the "Tax Certificate"), an opinion of the City Attorney of the City, certificates of the City, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the 2014 Series A and B Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, including matters essential to the exclusion of interest on the 2014 Series A and B Bonds from gross income for federal income tax purposes, and of the legal conclusions contained in the opinions, referred to in the third paragraph hereof (except that we have not relied on any such legal conclusions that are to the same effect as the opinions set forth herein). Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the 2014 Series A and B Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the 2014 Series A and B Bonds, the Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against municipal corporations of the State of Florida. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement of the City, dated December __, 2014, relating to the 2014 Series A and B Bonds or other offering material relating to the 2014 Series A and B Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The City has the right and power under the Act to adopt the Resolution, and the Resolution has been duly and lawfully adopted by the City, is in full force and effect, is valid and binding upon the City and is enforceable in accordance with its terms, and no other authorization for the Resolution is required. The Resolution creates the valid pledge which it purports to create of the Trust Estate, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

2. The City is duly authorized and entitled to issue the 2014 Series A and B Bonds and the 2014 Series A and B Bonds have been duly and validly authorized and issued by the City in accordance with the Constitution and statutes of the State of Florida, and particularly the Act, and the Resolution, and constitute the valid and binding obligations of the City as provided in the Resolution, enforceable in accordance with their terms and the terms of the Resolution, and entitled to the benefits of the Act and the Resolution. The 2014 Series A and B Bonds are direct and special obligations of the City and do not constitute a general indebtedness or a pledge of the full faith and credit of the City within the meaning of any constitutional or statutory provision or limitation of indebtedness, nor constitute a lien on any property of or in the City, other than the pledge of the Trust Estate as provided in the Resolution. No holder of the 2014 Series A and B Bonds shall have the right, directly or indirectly, to require or compel the exercise of the ad valorem taxing power of the City for the payment of the principal of or interest on the 2014 Series A and B Bonds or the making of any payments under the Resolution. The 2014 Series A and B Bonds rank equally as to security and payment with the Bonds that will be Outstanding after the issuance of the 2014 Series A and B Bonds and with all Parity Hedging Contract Obligations.

3. The City is legally authorized to operate the System, and to levy, collect, receive, hold and apply rates and charges for services provided from the System, as provided in the Resolution.

4. Interest on the 2014 Series A and B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the 2014 Series A and B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income.

5. The amount by which the respective issue prices of the 2014 Series A Bonds maturing on October 1, 20__ and October 1, 20__ and the 2014 Series B Bonds maturing on October 1, 20__ and October 1, 20__ (collectively, the "Discount Bonds") is less than the amount to be paid at maturity of the Discount Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds) constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Discount Bonds which is excluded from gross income for federal income tax purposes to the same extent as set forth in paragraph 4 hereof. For this purpose, the issue price of the Discount Bonds of each Series and maturity is the first price

at which a substantial amount of the Bonds of such Series and maturity is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers).

Except as stated in paragraphs 4 and 5 hereof, we express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the 2014 Series A and B Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX G
CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

Upon the delivery of the 2014 A/B Bonds, the City proposes to enter into a Continuing Disclosure Certificate with respect to the 2014 A/B Bonds in substantially the following form:

**CONTINUING DISCLOSURE CERTIFICATE
RELATING TO
CITY OF GAINESVILLE, FLORIDA
UTILITIES SYSTEM REVENUE BONDS,
2014 SERIES A AND B**

WHEREAS, the City Commission (the "Commission") of the City of Gainesville, Florida (the "City") heretofore has authorized the issuance of the City's \$_____ Utilities System Revenue Bonds, 2014 Series A and B (collectively, the "Bonds") pursuant to the Utilities System Revenue Bond Resolution duly adopted by the City on June 6, 1983, as heretofore amended, restated and supplemented (the "Resolution"), including as supplemented by the Twenty-Sixth Supplemental Utilities System Revenue Bond Resolution thereto authorizing the Bonds adopted by the City on December 4, 2014; and

WHEREAS, by resolution adopted by the Commission on December 4, 2014, the Commission has found and determined that it is necessary, in connection with the authorization and sale of the Bonds, and in order to assist the Participating Underwriters (hereinafter defined) in complying with the Rule (hereinafter defined), that the City agree to provide certain continuing disclosure information with respect to its combined electric, natural gas, water, wastewater and telecommunications utilities system (as more particularly defined in the Resolution, the "System") and the Bonds; and

WHEREAS, the execution and delivery of this Disclosure Certificate has been authorized by the Commission;

NOW, THEREFORE, the City hereby agrees as follows:

SECTION 1. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined in this Disclosure Certificate, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Audited Financial Statements" shall mean the City's audited financial statements for the System for its most recent fiscal year, prepared in accordance with the accounting principles described in Note 1 to the City's audited financial statements set forth in Appendix B to the Final Official Statement (or such other accounting principles as may be applicable to the City in the future pursuant to applicable law).

"Beneficial Owner" shall mean any person holding a beneficial ownership interest in Bonds through nominees or depositories (including any person holding such interest through the book-entry-only system of The Depository Trust Company).

"Disclosure Certificate" shall mean this certificate, as the same may be amended or supplemented from time to time in accordance with the provisions hereof.

"Dissemination Agent" shall mean any person or entity appointed by the City and which has entered into a written agreement with the City pursuant to which such person or entity agrees to perform the duties and obligations of Dissemination Agent under this Disclosure Certificate.

"Final Official Statement" shall mean the Official Statement of the City, dated _____, 2014, relating to the Bonds, as amended or supplemented.

"Listed Events" shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

"Participating Underwriter" shall mean each original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time, together with all interpretive guidance or other official interpretations or explanations thereof that are promulgated by the SEC.

"SEC" shall mean the United States Securities and Exchange Commission.

SECTION 2. Purpose of this Disclosure Certificate; Obligated Person; Disclosure Certificate to Constitute Contract.

(a) This Disclosure Certificate is executed and delivered on behalf of the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

(b) The combined utility funds of the City is hereby determined to be the only "obligated person" within the meaning of the Rule for whom financial information or operating data is presented in the Final Official Statement.

(c) In consideration of the purchase and acceptance of any and all of the Bonds by those who shall hold the same or shall own beneficial ownership interests therein from time to time, this Disclosure Certificate shall be deemed to be and shall constitute a contract between the City and the Holders and Beneficial Owners from time to time of the Bonds; and the covenants and agreements herein set forth to be performed on behalf of the City shall be for the benefit of the Holders and Beneficial Owners of any and all of the Bonds.

SECTION 3. Provision of Annual Reports.

(a) The City hereby covenants and agrees that it shall, or shall cause the Dissemination Agent to, not later than April 30; each such date being referred to herein as a "Final Submission Date"), commencing with the report for the Fiscal Year ending September 30, 2014, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that any Audited Financial Statements may be submitted separately from the balance of the Annual Report and later than the Final Submission Date if they are not available by that Date. If the fiscal year for the City changes, the City shall give notice of such change in a filing with the MSRB.

(b) If the City shall have appointed a Dissemination Agent hereunder, not later than seven (7) days prior to each Final Submission Date (each such date being referred to herein as a "Preliminary Submission Date"), the City shall provide the Annual Report to such Dissemination Agent. If by a Preliminary Submission Date, the Dissemination Agent, if any, has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with subsection (a).

(c) If the City or the Dissemination Agent (if any), as the case may be, has not furnished an Annual Report to the MSRB by a Final Submission Date, the City or the Dissemination Agent, as applicable, shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached as Exhibit A to this Disclosure Certificate.

(d) The City (or, in the event that the City shall appoint a Dissemination Agent hereunder, the Dissemination Agent) shall file the Annual Report with the MSRB on or before the Final Submission Date. In addition, if the City shall have appointed a Dissemination Agent hereunder, the Dissemination Agent shall file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

SECTION 4. Content of Annual Reports. The City's Annual Report shall contain or include by reference the following:

(i) The Audited Financial Statements. If any Audited Financial Statements are not available by the Final Submission Date, the Annual Report shall contain unaudited financial statements for the System in a format similar to the audited financial statements most recently prepared for the System and such Audited Financial Statements shall be filed in the same manner as the Annual Report when and if they become available.

(ii) Updated versions of the financial information and operating data contained in the Final Official Statement under the following captions:

- a. "ADDITIONAL FINANCING REQUIREMENTS";
- b. "THE ELECTRIC SYSTEM – Customers", "– Energy Sales", "– Energy Supply System" and "– Capital Improvement Program";
- c. "THE NATURAL GAS SYSTEM – Customers", "– Natural Gas Supply" and "– Capital Improvement Program";
- d. "THE WATER SYSTEM – Customers", "– Water Treatment and Supply" and "– Capital Improvement Program";
- e. "THE WASTEWATER SYSTEM – Customers", "– Treatment" and "– Capital Improvement Program";
- f. "THE TELECOMMUNICATIONS SYSTEM – Customers" and "– Capital Improvement Program";
- g. "RATES"; and
- h. "SUMMARY OF COMBINED NET REVENUES."

Any or all of the items listed above may be included by specific reference to other documents, including annual reports of the City or official statements relating to debt or other securities issues of the City or

other entities, which have been submitted to the MSRB or the SEC. If the document included by reference is a final official statement (as defined in the Rule), it must be available from the MSRB. The City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) The City hereby covenants and agrees that it shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The City hereby covenants and agrees that it shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
2. Modifications to rights of Bond holders;
3. Optional, unscheduled or contingent Bond calls;

4. Release, substitution or sale of property securing repayment of the Bonds;
5. Non-payment related defaults;
6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Upon the occurrence of a Listed Event described in Section 5(a), or upon the occurrence of a Listed Event described in Section 5(b) which the City determines would be material under applicable federal securities laws, the City shall, or shall cause the Dissemination Agent to, within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsection (b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

SECTION 6. Format of Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. In addition, in the event that the Rule shall be amended, modified or repealed such that compliance by the City with its obligations under this Disclosure Certificate no longer shall be required in any or all respects, then the City's obligations under this Disclosure Certificate shall terminate to a like extent.

SECTION 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

SECTION 9. Amendment; Waiver.

The City reserves the right to amend the provisions of this Disclosure Certificate as may be necessary or appropriate to achieve its compliance with any applicable federal securities law or rule, to cure any ambiguity, inconsistency or formal defect or omission, and to address any change in circumstances arising from a change in legal requirements, change in law, or change in the identity, nature, or status of the City, or type of business conducted by the City. Any such amendment shall be made only in a manner consistent with the Rule and any amendments and interpretations thereof by the SEC. Additionally, compliance with any provision of this Disclosure Certificate may be waived. Any such amendment or waiver will not be effective unless this Disclosure Certificate (as amended or taking into account such waiver) would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any applicable amendments to or official interpretations of the Rule, as well as any change in circumstances, and until the City shall have received either (i) a written opinion of bond counsel or other qualified independent special counsel selected by the City that is nationally recognized in the area of Federal Securities laws that the amendment or waiver would not materially impair the interests of holders or beneficial owners of the Bonds, or (ii) the written consent to the amendment or waiver of the holders of at least a majority of the principal amount of the

Bonds then outstanding. Annual Information containing any amended operating data or financial information shall explain, in narrative form, the reasons for any such amendment and the impact of the change on the type of operating data or financial information being provided. Additionally, in the year in which any change in accounting principles is made, the City shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating, or require the City to disseminate, any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Certificate, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

SECTION 11. Default.

(a) In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of any Outstanding Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate.

(b) Notwithstanding the foregoing, no Holder or Beneficial Owner of the Bonds shall have the right to challenge the content or adequacy of the information provided pursuant to Sections 3, 4 or 5 of this Disclosure Certificate by mandamus, specific performance or other equitable proceedings unless the Holders or Beneficial Owners of Bonds representing at least 25% in aggregate principal amount of the Bonds shall join in such proceedings.

(c) A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedies under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be those described in subsection (a) above.

(d) Under no circumstances shall any person or entity be entitled to recover monetary damages hereunder in the event of any failure of the City to comply with this Disclosure Certificate.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. Any Dissemination Agent appointed hereunder shall have only such duties as are specifically set forth in this Disclosure Certificate, and shall have such rights, immunities and liabilities as shall be set forth in the written agreement between the City and such Dissemination Agent pursuant to which such Dissemination Agent agrees to perform the duties and obligations of Dissemination Agent under this Disclosure Certificate.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, if any, and the Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 15. Governing Law. This Disclosure Certificate shall be deemed to be a contract made under the Rule and the laws of the State of Florida, and for all purposes shall be construed and interpreted in accordance with, and its validity governed by, the Rule and the laws of such State.

Dated: _____, 2014

CITY OF GAINESVILLE, FLORIDA

By: _____
General Manager for Utilities

Approved as to Form and Legality

City Attorney

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: City of Gainesville, Florida

Name of Bond Issue: \$_____ Utilities System Revenue Bonds, 2014 Series A and B

Date of Issuance: _____, 2014

NOTICE IS HEREBY GIVEN that the City of Gainesville, Florida (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3(a) of the Continuing Disclosure Certificate executed and delivered on behalf of the City relating to the above-named Bonds. [The City [has advised the undersigned that the City] anticipates that the Annual Report will be filed by _____.]

Dated:_____

[CITY OF GAINESVILLE, FLORIDA]

[_____, as Dissemination Agent
on behalf of the City of Gainesville, Florida]

[cc: City of Gainesville, Florida]