

**Fourth Amendment of  
Second Supplemental Resolution and  
Supplemental Resolution Authorizing  
Issuance of Additional Series C Commercial Paper**

**CITY OF GAINESVILLE, FLORIDA**

**RESOLUTION NO. 171087**

**AMENDING AND SUPPLEMENTING THE CITY'S  
SECOND SUPPLEMENTAL SUBORDINATED  
UTILITIES SYSTEM REVENUE BOND RESOLUTION  
Adopted October 5, 1992**

Adopted on May 17, 2018

RESOLUTION NO. 171087

A RESOLUTION OF THE CITY OF GAINESVILLE, FLORIDA, AMENDING AND SUPPLEMENTING THE SECOND SUPPLEMENTAL SUBORDINATED UTILITIES SYSTEM REVENUE BOND RESOLUTION ADOPTED ON OCTOBER 5, 1992, AS AMENDED, TO INCREASE THE MAXIMUM AGGREGATE PRINCIPAL AMOUNT OF THE CITY'S UTILITIES SYSTEM COMMERCIAL PAPER NOTES, SERIES C AND UTILITIES SYSTEM SUBORDINATED BANK BONDS, SERIES A AUTHORIZED TO BE OUTSTANDING AT ANY TIME TO \$125,000,000; AUTHORIZING THE ISSUANCE OF ADDITIONAL UTILITIES SYSTEM COMMERCIAL PAPER NOTES, SERIES C IN AN AGGREGATE PRINCIPAL AMOUNT OUTSTANDING AT ANY ONE TIME OF NOT TO EXCEED \$40,000,000 WITHIN SAID MAXIMUM PRINCIPAL AMOUNT TO PAY THE COST OF CERTAIN CAPITAL PROJECTS REFERRED TO HEREIN OF THE UTILITIES SYSTEM; PROVIDING CERTAIN DETAILS WITH RESPECT THERETO; AUTHORIZING CERTAIN OFFICERS OF THE AUTHORITY TO DETERMINE THE AMOUNTS, INTEREST RATES AND MATURITY DATES OF SUCH SERIES C COMMERCIAL PAPER NOTES WITHIN THE PARAMETERS ESTABLISHED HEREIN WHICH MAY BE ISSUED AT ONE OR MORE TIMES; PROVIDING CERTAIN OTHER DETAILS WITH RESPECT THERETO; APPROVING THE FORM AND APPROVING THE EXECUTION AND DELIVERY OF AMENDMENTS TO CERTAIN DOCUMENTS RELATING THERETO; APPROVING THE FORM AND AUTHORIZING THE CIRCULATION OF AN OFFERING MEMORANDUM AND APPROVING THE EXECUTION THEREOF; AND PROVIDING AN EFFECTIVE DATE FOR THIS RESOLUTION.

**WHEREAS**, the City of Gainesville, Florida ("City") adopted on January 30, 2003 its Amended and Restated Utilities System Revenue Bond Resolution (the "Senior Bond Resolution"), as amended, supplemented and restated and authorized thereunder Subordinated Commercial Paper Notes;

**WHEREAS**, the City on December 8, 2003 adopted its Amended and Restated Subordinated Utilities System Revenue Bond Resolution supplementing the Senior Bond Resolution (the "Subordinated Utilities System Revenue Bond Resolution") authorizing the issuance of Subordinated Indebtedness junior and subordinated in all respects to the security interest in and pledge and assignment of the Trust Estate created by the Senior Bond Resolution as security for the Bonds;

**WHEREAS**, the City heretofore adopted on October 5, 1992, its Second Supplemental Subordinated Utilities System Revenue Bond Resolution, as amended and supplemented, including by a First Amendment Resolution adopted on November 14, 1994, Resolution No. 960411 adopted on September 23, 1996, Resolution No. 981021 adopted on January 25, 1999 and Resolution No. 160562 adopted on December 1, 2016 (collectively, the "Second Supplemental Subordinated Resolution" and together with the Senior Bond Resolution and the Subordinated Utilities System Revenue Bond Resolution, the "Resolutions"), supplementing the Subordinated Utilities System Revenue Bond Resolution authorizing the issuance of its Utilities System Commercial Paper Notes, Series C in a maximum aggregate principal amount of up to \$85,000,000 (the "Series C Commercial Paper Notes") and Utilities System Subordinated Bank Bond, Series A (the "Bank Bond");

**WHEREAS**, the City desires to amend the Second Supplemental Subordinated Resolution to (i) increase the maximum aggregate principal amount of the Series C Commercial Paper Notes and the Bank Bonds that may be Outstanding at any one time to \$125,000,000, in order to finance additional portions of the Cost of Acquisition and Construction of the System, (ii) extend the Commercial Paper Program authorized thereunder for an additional 30 years (such terms, and all other capitalized terms used herein without definition, having the respective meanings assigned thereto in the Resolutions), and (iii) clarify when the Second Supplemental Subordinated Resolution may be amended without the consent of the holders of the Series C Commercial Paper Notes or Series A Bank Bonds; and

**WHEREAS**, clause 3 of Section 1002 of the Senior Bond Resolution authorizes the City to adopt a Supplemental Resolution (including a Supplemental Subordinated Resolution, as such term is defined in the Subordinated Utilities System Revenue Bond Resolution), without the consent of the Holders of Outstanding Bonds, for the purpose of making any modification or amendment of the Senior Bond Resolution (including any Supplemental Resolution) which the Trustee determines will not have a material adverse effect on the interests of Bondholders; and

**WHEREAS**, clause 3 of Section 10.02 of the Subordinated Utilities System Revenue Bond Resolution authorizes the City to adopt a Supplemental Subordinated Resolution, without the consent of the Holders of Outstanding Subordinated Bonds, for the purposes of making any modification or amendment of the Resolution (including any Supplemental Resolution) which the Trustee determines will not have a material adverse effect on the interest of Holders of Subordinated Bonds; and

**WHEREAS**, clause 3 of Section 10.02 of the Subordinated Utilities System Revenue Bond Resolution authorizes the City to adopt a Supplemental Subordinated Resolution, without the consent of the Holders of Outstanding Subordinated Bonds, for the purpose of making any modification or amendment of the Subordinated Utilities System Revenue Bond Resolution (including any Supplemental Subordinated Resolution), upon the delivery of an Opinion of Counsel to the effect that the provisions of such Supplemental Subordinated Resolution will not have a material adverse effect on the interests of the Holders of Outstanding Subordinated Bonds and delivery of the Opinion of Counsel specified in clause 2 of Section 10.04 of the Subordinated Utilities System Revenue Bond Resolution; and

**WHEREAS**, the Series C Commercial Paper Notes are payable from a lien upon and a pledge of certain amounts deposited in the Subordinated Indebtedness Fund established under the Subordinated Utilities System Revenue Bond Resolution and in the Series C Commercial Paper Note Payment Account established under the Second Supplemental Subordinated Resolution (the "Pledged Funds") to the extent and in the manner described in the Resolutions;

**WHEREAS**, the City on April 28, 2008 authorized the issuance of and issued \$62,000,000 in aggregate principal amount of Series C Commercial Paper Notes (the "Series 2008 Notes") within the previously approved maximum aggregate principal amount of such Notes, and \$40,000,000 of such Notes remain outstanding;

**WHEREAS**, the City on December 1, 2016 authorized the issuance of \$20,250,000 in aggregate principal amount of Series C Commercial Paper Notes within the previously approved maximum aggregate principal amount of such Notes, and on March 14, 2017 issued \$5,000,000 of such Notes, of which \$5,000,000 remain outstanding;

**WHEREAS**, the City desires to authorize the issuance of an additional \$40,000,000 in aggregate principal amount of Series C Commercial Paper Notes (the "Series 2018 Notes") within the approved maximum aggregate principal amount of the Series C Commercial Paper Notes, at one or more times, to finance a portion of the Cost of Acquisition and Construction of the System, more particularly described on Exhibit "A" attached hereto and such other projects as shall be included in the then-approved capital improvement plan for the System and authorized by a hereinafter defined Authorized Officer (collectively, the "2018 Project").

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY OF GAINESVILLE, FLORIDA AS FOLLOWS:**

SECTION 1. Authority for this Resolution. This Resolution is adopted pursuant to the provisions of Chapter 166, Florida Statutes, the City's Charter, the Resolutions and other applicable provisions of law (the "Act"), including, particularly, clause 3 of Section 1002 of the Senior Bond Resolution, Section 10.01(4) and clause 3 of Section 10.02 each of the Subordinated Utilities System Revenue Bond Resolution.

SECTION 2. Definitions. All capitalized terms not otherwise defined herein shall have such the following meanings or, if not otherwise defined herein, meanings as given in the Resolutions.

A. "Amended and Restated Issuing and Paying Agency Agreement" shall mean the Amended and Restated Issuing and Paying Agency Agreement, dated February 1, 1995, between the City and the Issuing Agent, as amended by the First Amendment to Amended and Restated Issuing and Paying Agency Agreement dated as of January 1, 1999 and as supplemented by the First Supplement to Amended and Restated Issuing and Paying Agency Agreement dated November 30, 2015 relating to the Series C Commercial Paper Notes.

B. "Credit Agreement" shall mean the Credit Agreement dated November 30, 2015, as amended by the First Amendment to Credit Agreement, each between the City and the Credit Provider, as may be amended from time to time, relating to the Series C Commercial Paper Notes.

C. "Credit Provider" shall mean Bank of America, N.A., and its successors and assigns.

D. "Dealer Agreement" shall mean the Dealer Agreement dated as of October, 1, 1992, as amended by the First Amendment to Dealer Agreement dated as of November 30, 2015, as amended by the Second Amendment to Dealer Agreement dated as of March 1, 2017, as amended by the Third Amendment to Dealer Agreement dated June 12, 2017, each between the City and Goldman Sachs & Co. LLC (formerly named Goldman, Sachs & Co.), as may be amended from time to time, relating to the Series C Commercial Paper Notes.

E. "First Amendment to Credit Agreement" shall mean the First Amendment to Credit Agreement between the City and the Credit Provider, as may be amended from time to time, relating to the Series C Commercial Paper Notes, substantially in the form attached hereto as Exhibit "B."

F. "Fourth Amendment to Dealer Agreement" shall mean the Fourth Amendment to Dealer Agreement between the City and Goldman, Sachs & Co. LLC (formerly named Goldman, Sachs & Co.), as may be amended from time to time, relating to the Series C Commercial Paper Notes, substantially in the form attached hereto as Exhibit "C."

G. "Issuing Agent" shall mean U.S. Bank National Association, and its successors and assigns.

H. "Second Amendment to IPA" shall mean the Second Amendment to Amended and Restated Issuing and Paying Agency Agreement between the City and the Issuing Agent, as may be amended from time to time, relating to the Series C Commercial Paper Notes, substantially in the form attached hereto as "Exhibit "D."

SECTION 3. Findings. The City hereby finds, determines and declares as follows:

A. Pursuant to the provisions of the Act and the Resolutions, the City heretofore has authorized the issuance and sale, from time to time, in a maximum aggregate principal amount Outstanding at any time of not to exceed \$85,000,000 of the Series C Commercial Paper Notes and associated Series A Bank Bonds in order to finance and refinance the Cost of Acquisition and Construction of the System.

B. In order to finance additional Cost of Acquisition and Construction of the System, including the 2018 Project, the City has determined that it is in its best interests to increase the maximum aggregate principal amount of Series C Commercial Paper Notes and associated Series A Bank Bonds authorized to be Outstanding at any time to an aggregate principal amount of \$125,000,000, and that it is necessary, desirable, convenient and in the best interest of the City and serves a valid public purpose to authorize the issuance of the Series 2018 Notes within said maximum aggregate principal amount (as increased pursuant to Section 8 hereof) to finance the costs of the 2018 Project and pay the costs of issuance thereof.

C. The City is authorized pursuant to the Act and the Resolutions to issue the Series 2018 Notes for the purposes and secured in the manner provided in the Resolutions.

D. The negotiated sale of the Series 2018 Notes from time to time, pursuant to the Dealer Agreement, is in the best interest of the City because (i) obligations in the nature of the Series 2018 Notes generally must be sold by private negotiated sale rather than by public bidding to achieve the financial advantages offered by a commercial paper program; and (ii) the City has conducted negotiations with the Dealer for obtaining purchasers for the Series C Commercial Paper Notes as they are issued at private negotiated sales, and there is no practical manner in which the Series C Commercial Paper Notes could be initially sold and renewed by public bidding from time to time to meet the financing requirements of the financing program authorized herein and in the Resolutions.

E. The delegation of authority with regard to the issuance of the Series 2018 Notes to officers of the City hereinafter provided for is necessary for the proper and efficient implementation of the commercial paper financing program contemplated, and such delegation is in the best interests of the City.

F. The Dealer shall provide the City, prior to the initial issuance of any Series 2018 Notes, a (i) disclosure statement containing the information required by Section 218.385(6), Florida Statutes, and (ii) Truth-In-Bonding Statement pursuant to Section 218.385(3), Florida Statutes and no further disclosure is or shall be required by the City.

SECTION 4. Authorization of Series 2018 Notes. Subject and pursuant to the provisions of this Resolution and the Resolutions, additional Series C Commercial Paper Notes are hereby authorized to be issued and reissued, at one or more times, in a maximum aggregate principal amount of not to exceed \$40,000,000 outstanding at any time (exclusive of Series C Commercial Paper Notes outstanding on the day hereof) to pay the costs of the 2018 Project, more particularly described in Exhibit "A" attached hereto. For the avoidance of doubt, the Series 2018 Notes constitute part of the Series C Commercial Paper Notes and are in addition to the Series 2008 Notes and the Series 2015 Notes heretofore authorized. The net proceeds of the Series 2018 Notes shall be wired to the City for deposit into the Construction Fund, and shall be applied to the payment of such Cost of Acquisition and Construction of the 2018 Project.

SECTION 5. Description of Commercial Paper Notes. The Series 2018 Notes shall be dated the date of authentication and delivery thereof, fully registered and shall be in denominations of \$100,000 and in integral multiples of \$1,000 in excess of such amount. The Series C Notes shall bear interest at such rate or rates and shall mature, as may be approved by the Mayor of the City, the General Manager for Utilities or his or her designee, or the Chief Financial Officer, or his or her designee (each an "Authorized Officer" and collectively, the "Authorized Officers") on or prior to the issuance thereof in accordance with the terms hereof and the Resolutions and shall be issued and reissued from time to time as the proceeds thereof are needed to pay the costs of the 2018 Project or the maturing principal on other Series 2018 Notes, and shall mature not more than 270 days after their respective dates, but in no event later than the earlier to occur of (a) the day preceding the Termination Date, or (b) the latest maturity date authorized under the Second Supplemental Subordinated Resolution, as amended, which date is currently October 5, 2022 as amended in accordance with Section 8 hereof (or such other date as may hereafter be designated by the City pursuant to a resolution supplemental hereto, which such date may be amended without consent of the holders of the Series 2018 Notes) (or, if such day is not a Business Day (as defined in the Credit Agreement), the next preceding

Business Day). The Series 2018 Notes shall bear interest at an annual rate (calculated on the basis of a 365-day year and on a basis of actual days elapsed) not in excess of an interest rate of 15% per annum and shall have a purchase price of not less than 100% of the principal amount thereof less the fee of the Dealer, which shall not exceed the fee in the Dealer Agreement then in effect. The Series 2018 Notes shall not be subject to prepayment or redemption prior to their respective maturity dates.

SECTION 6. Delegation of Authority With Respect to Issuance of the Commercial Paper Notes. Each Authorized Officer is hereby declared and designated as the officer of the City having primary responsibility for the issuance of the Series 2018 Notes. The City hereby delegates to each person constituting an Authorized Officer the authority to determine the date of issuance, principal amount, interest rate and maturity date of each Series 2018 Note issued under the Resolutions, all within the parameters and limitations set forth herein and the Resolutions, and to take all other actions in the name and on behalf of the City to accomplish the issuance and sale of the Series 2018 Notes from time to time, including without limitation the execution and delivery of a replacement TECP Master Note with The Depository Trust Company to evidence the issuance and delivery of the Series C Commercial Paper Notes, a replacement Bank Bond pursuant to Section 9 hereof, and an amendment to each of the Credit Agreement, the Amended and Restated Issuing and Paying Agency Agreement and the Dealer Agreement pursuant to Sections 7.B, 11.A and 11.B hereof, respectively, each to reflect the maximum principal amount of Series C Commercial Paper Notes that may be outstanding at any time. An Authorized Officer shall approve the issuance and award the sale of the Series 2018 Notes to the Dealer. In carrying out his or her duties hereunder, the Authorized Officer shall consider prevailing market conditions, the status of construction of the 2018 Project and costs incurred therefor, the scheduled maturity dates and amounts of outstanding Series 2018 Notes, the amounts payable under the Credit Agreement and other considerations deemed relevant by the Authorized Officer and may consult with financial and other consultants.

SECTION 7. Authorization to Borrow Pursuant to the Credit Agreement; Approval of First Amendment to Credit Agreement.

A. The City is hereby authorized to perform its obligations under the Credit Agreement, including borrowing and repaying amounts thereunder for the purpose of paying the principal of maturing Series C Commercial Paper Notes and repaying the principal amount of loans borrowed under the Credit Agreement and secured by the Bank Bonds, provided that the aggregate principal amount of loans outstanding under the Credit Agreement and the aggregate principal amount of Series C Commercial Paper Notes outstanding shall not exceed at any one time the amounts authorized under such Credit Agreement.

B. The City hereby approves, in substantially the form attached hereto as "Exhibit B," the First Amendment to Credit Agreement and authorizes the Authorized Officers, and each of them, to execute and deliver such First Amendment to Credit Agreement on behalf of the City, to increase the available commitment thereunder to \$125,000,000 and to extend the Termination Date of the Credit Agreement to November 30, 2021, subject to completion thereof, and with such changes therein as the officer executing the same may approve as necessary or desirable and in the best interest of the City, such approval and acceptance to be evidenced

conclusively by the execution and delivery of such First Amendment to Credit Agreement by such officer.

SECTION 8. Amendment of Maximum Aggregate Principal Amounts of Series C Commercial Paper Notes and Bank Bonds; Amendment of Program Termination Date; Amendment of Section 901.

A. In order to increase the maximum aggregate principal amount of Series C Commercial Paper Notes and Bank Bonds authorized to be outstanding, the Second Supplemental Subordinated Resolution is hereby amended to replace the dollar amount of "\$85,000,000" with the dollar amount of "\$125,000,000" in all places in such Resolution in which such dollar amount appears.

B. In order to extend the Series C Commercial Paper Program for an additional thirty (30) years to more closely approximate the financing plan, the Second Supplemental Subordinated Resolution is hereby amended to replace all references to "October 5, 2022" as the Program Termination Date, including without limitation in Sections 202 and 203, with "October 5, 2048".

C. Section 901 of the Second Supplemental Subordinated Resolution is hereby amended and restated in its entirety to read as follows (with underlining reflecting inserts and strikethroughs reflecting deletions from the original text):

"SECTION 901. Amendments to this Second Supplemental Subordinated Resolution. This Second Supplemental Subordinated Resolution may be amended, at any time or from time to time, without the consent of the Holders of the Outstanding Series C Commercial Paper Notes or the Outstanding Series A Bank Bonds, for any of the following purposes: (a) to amend the parameters set forth in paragraph 4 of Section 204 hereof; (b) to provide for the issuance of the Series C Commercial Paper Notes in "book-entry" form through the facilities of a securities depository or in uncertificated form; ~~and~~ (c) to make any changes necessary to accommodate a substitute Credit Agreement, Dealer Agreement or Issuing and Paying Agency Agreement; (d) to increase the maximum aggregate principal amount of Series C Commercial Paper Notes and Series A Bank Bonds that may be Outstanding at any one time; and (e) to extend the Program Termination Date for the Series C Commercial Paper Program; in each case, that do not adversely affect the Holders of the Series C Commercial Paper Notes or the Series A Bank Bonds."

SECTION 9. Authorization of Execution and Delivery of Additional Bank Bonds. Upon the available commitment under the Credit Agreement being increased in accordance with Section 7 hereof, the City shall be authorized, in addition to the authority set forth in Section 303 of the Second Supplemental Subordinated Resolution, to execute, authenticate and deliver replacement Bank Bonds as hereinafter provided in this Section 9. Such Bank Bonds shall be in fully registered form, without coupons, and shall be dated the date of their execution and delivery, registered in the name of the Credit Provider or such other provider under the Credit Agreement and shall have a stated maximum principal amount equal to such increased commitment under the Credit Agreement. The Bank Bond shall be authenticated and

delivered to the Issuing Agent, for the account of the Credit Provider, concurrently with the effectiveness of such increase in the commitment under the Credit Agreement, but only upon the surrender to the City of the Bank Bond delivered for the account of the Credit Provider pursuant to Section 303 of the Second Supplemental Subordinated Resolution.

SECTION 10. Offering Memorandum. The Authorized Officers are hereby authorized to approve and execute, on behalf of the City, the Offering Memorandum relating to the Series C Commercial Paper Notes (which may include disclosure with respect to the outstanding Utilities System Commercial Paper Notes, Series D (Federally Taxable)), in substantially the form attached hereto as "Exhibit "E", and all future supplements and amendments thereto (collectively, the "Offering Memorandum"), with such changes, insertions, omissions and filling of blanks as the officer(s) signing the same may approve, such execution to be conclusive evidence of such approval. The distribution of the Offering Memorandum in connection with the marketing of Commercial Paper Notes is hereby approved.

SECTION 11. Approval of Second Amendment to IPA; Approval of Fourth Amendment to Dealer Agreement.

A. The City hereby approves the Second Amendment to IPA, in substantially the form attached hereto as Exhibit "D," and authorizes the Authorized Officers, and each of them, to execute and deliver such Second Amendment to IPA on behalf of the City, subject to completion thereof, and with such changes therein as the officer executing the same may approve as necessary or desirable and in the best interest of the City, such approval and acceptance to be evidenced conclusively by the execution and delivery of such Second Amendment to IPA by such officer.

B. The City hereby approves the Fourth Amendment to Dealer Agreement, in substantially the form attached hereto as Exhibit "C," and authorizes the Authorized Officers, and each of them, to execute and deliver such Fourth Amendment to Dealer Agreement on behalf of the City, subject to completion thereof, and with such changes therein as the officer executing the same may approve as necessary or desirable and in the best interest of the City, such approval and acceptance to be evidenced conclusively by the execution and delivery of such Fourth Amendment to Dealer Agreement by such officer.

SECTION 12. Further Authority. The Authorized Officers are each hereby authorized to do all acts and things required of them by this Resolution, the Resolutions, or otherwise, as may be necessary or desirable to effectuate the Series 2018 Notes in accordance with the terms of this Resolution and the Resolutions. The Authorized Officers, or their respective designees, are each hereby authorized and directed to execute and deliver any and all papers and instruments and to do and cause to be done any and all acts and things necessary or proper for carrying out the transactions contemplated hereunder.

SECTION 13. Payment of Costs of Issuance. The Authorized Officers are hereby authorized to pay the costs of issuance of the Series 2018 Notes, including the fees of the Dealer, the Credit Provider and the Issuing Agent, all legal expenses, expenses for fiscal agents, financial advisors, accountants and other experts, printing expenses and such other expenses necessary or incidental and incurred by the City in connection with the transaction contemplated herein.

SECTION 14. Severability. If any one or more of the covenants, agreements or provisions of this Resolution should be held contrary to any express provision of law or contrary to the policy of express law, though not expressly prohibited, or against public policy, or shall for any reason whatsoever be held invalid, then such covenants, agreements or provisions shall be null and void and shall be deemed separate from the remaining covenants, agreements or provisions of this Resolution and the Resolutions and of the Series C Commercial Paper Notes issued thereunder.

SECTION 15. No Third-Party Beneficiaries. Except as herein otherwise expressly provided, nothing in this Resolution expressed or implied is intended or shall be construed to confer upon any person, firm or corporation other than the parties hereto and the owners and holders of the Series C Commercial Paper Notes issued under and secured by the Resolutions, any right, remedy or claim, legal or equitable, under or by reason of this Resolution or any provision hereof, this Resolution and all its provisions being intended to be and being for the sole and exclusive benefit of the parties hereto and the owners and holders from time to time of the Series C Commercial Paper Notes.

SECTION 16. Controlling Law; Members of City Not Liable. All covenants, stipulations, obligations and agreements of the City contained in this Resolution shall be deemed to be covenants, stipulations, obligations and agreements of the City to the full extent authorized by the Act and provided by the Constitution and laws of the State. No covenant, stipulation, obligation or agreement contained herein shall be deemed to be a covenant, stipulation, obligation or agreement of any present or future member, agent or employee of the City in their individual capacity, and neither the members of the City nor any official executing the Series 2018 Notes or any agreements related thereto shall be liable personally on the Series C Commercial Paper Notes or shall be subject to any personal liability or accountability by reason of the issuance or the execution by the City or such members thereof.

SECTION 17. Effective Date. (a) Except as described in the following paragraph this Resolution shall be fully effective immediately upon adoption.

(b) Section 8 of this Resolution shall be effective upon (i) the delivery to the Trustee of a copy hereof certified by an Authorized Officer of the City, (ii) the filing with the City of an instrument in writing made by the Trustee consenting hereto, in substantially the form attached hereto as Annex A, and (iii) receipt by the City of an Opinion of Counsel as required by Section 10.02 of the Subordinated Resolution.

*[SIGNATURE PAGE FOLLOWS]*

PASSED AND ADOPTED IN PUBLIC SESSION OF THE CITY COMMISSION OF THE CITY OF GAINESVILLE, FLORIDA, THIS 17<sup>TH</sup> DAY OF MAY, 2018.

CITY COMMISSION OF THE CITY OF GAINESVILLE, FLORIDA

ATTESTED:

By: \_\_\_\_\_  
Mayor

By: \_\_\_\_\_  
Clerk of the Commission

APPROVED AS TO FORM AND LEGALITY:

By: \_\_\_\_\_  
City Attorney

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## EXHIBIT "A"

### PROJECT DESCRIPTION

- ERP implementation
- Murphree Plant electrical system upgrade
- Automated Meter Installation
- Deerhaven CT3 upgrades
- Deerhaven Unit 2 upgrades
- Parker Substation expansion
- Gravity collection system
- Main Street Water Reclamation Facility upgrade
- Kanapaha Water Reclamation

Together with such other projects as shall be included in the capital improvement plan for the System and authorized by an Authorized Officer.

ANNEX A

CONSENT OF TRUSTEE

The undersigned, as Trustee under the (x) Utilities System Revenue Bond Resolution of the City of Gainesville, Florida (the "City") adopted on June 6, 1983, as amended and restated by the Amended and Restated Utilities System Revenue Bond Resolution adopted on January 30, 2003, as amended and supplemented, including, without limitation, as amended by the Thirteenth Supplemental Utilities System Revenue Bond Resolution adopted on July 14, 2003 and Resolution No. 170405 adopted on September 21, 2017 (the "Bond Resolution"), and (y) as supplemented by the Amended and Restated Subordinated Utilities System Revenue Bond Resolution adopted on January 30, 2003 as amended and supplemented, including as supplemented by the Second Supplemental Subordinated Utilities System Revenue Bond Resolution adopted on October 5, 1992 (the "Subordinated Resolution"), as amended, (i) hereby acknowledges the filing with it of a copy of a Resolution (the "Amendatory Resolution") adopted by the City on May 17, 2018, certified by an Authorized Officer of the City pursuant to Section 1002 of the Bond Resolution and Section 10.02 of the Subordinated Resolution, a copy of which is attached to this Consent, and (ii) hereby consents to the Amendatory Resolution and to the amendments to the Bond Resolution set forth therein pursuant to and in accordance with Section 1002 of the Bond Resolution and Section 10.02 of the Subordinated Resolution.

U.S. BANK NATIONAL ASSOCIATION,  
as Trustee

By: \_\_\_\_\_  
Authorized Officer

Attest:

\_\_\_\_\_  
Title:

EXHIBIT "B"

FIRST AMENDMENT TO CREDIT AGREEMENT

**FIRST AMENDMENT TO  
CREDIT AGREEMENT**

This FIRST AMENDMENT TO CREDIT AGREEMENT, dated as of \_\_\_\_\_, 2018 (this “Amendment”), is entered into between THE CITY OF GAINESVILLE, FLORIDA (the “City”) and BANK OF AMERICA, N.A. (the “Bank”).

**W I T N E S S E T H:**

**WHEREAS**, the City and the Bank entered into that certain Credit Agreement (the “Agreement”), dated as of November 30, 2015, pursuant to which the Bank agreed, subject to certain conditions, to make loans to the City from time to time to enable the City to pay the City’s Utilities System Commercial Paper Notes, Series C (the “Commercial Paper Notes”) upon maturity;

**WHEREAS**, the Agreement has a stated expiration date of November 30, 2018, and a maximum commitment amount of \$85,000,000;

**WHEREAS**, the City and the Bank have agreed to extend the stated expiration date of the Agreement to November 30, 2021, and to increase the maximum commitment amount to \$125,000,000; and

**WHEREAS**, the Bank is willing to enter into this Amendment with the City, subject to the following terms and conditions;

**NOW THEREFORE**, in consideration of the foregoing and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

**Section 1. AUTHORITY AND DEFINITIONS**

- (a) This Amendment is entered into pursuant to Section 9.04 of the Agreement.
- (b) This Amendment amends the Agreement.
- (c) Capitalized terms used herein but not herein defined, shall have the meanings ascribed to them in the Agreement.

**Section 2. AMENDMENTS**

The Agreement shall be amended as of the Amendment Effective Date (as defined in Section 3 of this Amendment) as follows:

- (a) The following definitions set forth in Section 1.01 of the Agreement shall be amended in their entirety, as follows:

“Commitment” means \$125,000,000, as such amount may be reduced from time to time pursuant to Sections 3.07 and 3.08.

“Termination Date” means the earlier of (i) November 30, 2021, or such later date to which the Revolving Credit Period shall have been extended pursuant to Section 3.01(c), or if any such date is not a Business Day, the next preceding Business Day, or (ii) the date on which all of the following shall have occurred: (A) a Tender Event shall have occurred and be continuing (and shall not have otherwise been waived by the Bank), (B) the Commitment of the Bank shall have terminated in accordance with Section 3.08(b), and (C) the Bank Bond shall be immediately due and payable pursuant to Section 7.02 hereof.

(b) Section 9.03 of the Agreement shall be amended to add the following subsection (d) immediately after subsection (c) contained therein, as follows:

(d) To the extent permitted by applicable law, the City agrees to indemnify the Bank and to hold the Bank harmless from and against any and all claims, damages, losses, liabilities, cost or expenses which the Bank may incur or which may be claimed against the Bank by any person whatsoever by reason of any untrue statement or alleged untrue statement of any material fact contained (or incorporated by reference) in any offering memorandum, official statement of similar disclosure document relating to the Commercial Paper Notes, or in any supplement or amendment thereof, or the omission or alleged omission to state therein a material fact necessary to make such statements, in the light of the circumstances under which they are or were made, not misleading, except insofar as such claims, damages, losses, liabilities, costs or expenses are caused by any such untrue statement or alleged untrue statement or omission based upon information relating to the Bank furnished to the City in writing by the Bank or approved in writing by the Bank in each case expressly for use therein.

**Section 3. CONDITIONS TO EFFECTIVENESS OF AMENDMENT**

This Amendment shall be effective on the dated date hereof (the “Amendment Effective Date”), provided that all of the following conditions have been fulfilled:

- (a) Delivery by the parties hereto of an executed counterpart of this Amendment.
- (b) All other legal matters pertaining to the execution and delivery of this Amendment shall be satisfactory to the Bank and its counsel.

**Section 4. MISCELLANEOUS**

(a) Except as specifically amended herein, the Agreement shall continue in full force and effect in accordance with its terms. Reference to this specific Amendment need not be made in any note, document, agreement, letter, certificate, the Agreement or any communication issued or made subsequent to, or with respect to, the Agreement, it being hereby agreed that any reference in the Agreement to the “Agreement” shall be sufficient to refer to the Agreement, as hereby amended.

(b) In case any one or more of the provisions contained herein should be declared invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired hereby.

(c) This Amendment may be signed in any number of counterpart copies, but all such copies shall constitute one and the same voluntary, legal and binding instrument.

(d) The City agrees to pay the fees of counsel to the Bank of not to exceed \$5,000.

**IN WITNESS WHEREOF**, the City and the Bank have caused this Amendment to be duly executed as of the date first above written.

CITY OF GAINESVILLE, FLORIDA

By \_\_\_\_\_  
Name: Edward J. Bielarski, Jr.  
Title: General Manager

Approved as to form and legality:

By: \_\_\_\_\_  
Name: Nicolle M. Shalley  
Title: City Attorney

BANK OF AMERICA, N.A., as the Bank

By \_\_\_\_\_  
Name: Joe R. Miller  
Title: Senior Vice President

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EXHIBIT "C"

FOURTH AMENDMENT TO DEALER AGREEMENT

FOURTH AMENDMENT TO DEALER AGREEMENT

(Utilities System Commercial Paper Notes, Series C)

\_\_\_\_\_, 2018

This is a Fourth Amendment to that certain Dealer Agreement dated as of October 1, 1992, as amended by the First Amendment to Dealer Agreement dated November 30, 2015, the Second Amendment to Dealer Agreement dated March 1, 2017, and the Third Amendment to Dealer Agreement dated June 12, 2017 (collectively, the "Dealer Agreement"), each between the City of Gainesville, Florida (the "Issuer") and Goldman Sachs & Co. LLC (formerly named Goldman, Sachs & Co.) ("Goldman").

WHEREAS, the parties desire to amend certain provisions of the Dealer Agreement to reflect that the maximum aggregate principal amount of the Issuer's Utilities System Commercial Paper Notes, Series C that may be outstanding at any time is \$125,000,000;

NOW, THEREFORE, in consideration of the premises hereof and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Amendments.

A. All references in the Dealer Agreement to "\$85,000,000" are hereby amended to read "\$125,000,000".

SECTION 2. Counterparts. This amendment may be executed in multiple counterparts, all of which shall constitute one and the same instrument and each of which shall be deemed to be an original.

[Signature page follows]

SECTION 3. Effective Date. This Amendment shall become immediately effective.

Except as set forth herein, the City of Gainesville, Florida and Goldman Sachs & Co. LLC confirm that the Dealer Agreement shall continue in full force and effect.

**GOLDMAN SACHS & CO. LLC**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**CITY OF GAINESVILLE, FLORIDA**

By: \_\_\_\_\_  
Name: Claudia Rasnick  
Title: Interim Chief Financial Officer

Approved as to form and legality:

By: \_\_\_\_\_  
Name: Nicolle M. Shalley  
Title: City Attorney

#55885069\_v4

EXHIBIT "D"

SECOND AMENDMENT TO AMENDED AND RESTATED  
ISSUING AND PAYING AGENCY AGREEMENT

**SECOND AMENDMENT TO AMENDED AND RESTATED  
ISSUING AND PAYING AGENCY AGREEMENT**

This **SECOND AMENDMENT TO AMENDED AND RESTATED ISSUING AND PAYING AGENCY AGREEMENT** (this "Second Amendment"), dated as of \_\_\_\_\_, 2018, between the City of Gainesville, Florida, a municipal corporation organized and existing under the laws of the State of Florida (the "City"), and U.S. Bank National Association, as successor to Bankers Trust Company (the "Issuing Agent").

**WITNESSETH:**

**WHEREAS**, the City and the Issuing Agent heretofore have entered into an Amended and Restated Issuing and Paying Agency Agreement, dated as of February 1, 1995, as amended by the First Amendment to Amended and Restated Issuing and Paying Agency Agreement, dated as of January 1, 1999, and by the First Supplement to Amended and Restated Issuing and Paying Agency Agreement, dated as of November 30, 2015 (collectively, the "Original Agreement"), pursuant to which the Issuing Agent has agreed to act as the Subordinated Bond Paying Agent and Subordinated Bond Registrar for the Commercial Paper Notes (such terms, and all other capitalized terms used herein and not defined herein, having the respective meanings assigned thereto in the Original Agreement); and

**WHEREAS**, on December 8, 2003, the City adopted its Amended and Restated Subordinated Utilities System Revenue Bond Resolution (the "Original Subordinated Bond Resolution") authorizing the issuance of certain subordinated indebtedness;

**WHEREAS**, on October 5, 1992, the City adopted its Second Supplemental Subordinated Utilities System Revenue Bond Resolution, as amended and supplemented, including by a First Amendment Resolution adopted on November 14, 1994, Resolution No. 960411 adopted on September 23, 1996, Resolution No. 981021 adopted on January 25, 1999 and Resolution No. 160562 adopted on December 1, 2016 (collectively, the "Second Supplemental Resolution"), supplementing the Original Subordinated Bond Resolution to authorize the issuance of its Utilities System Commercial Paper Notes, Series C in a maximum aggregate principal amount of up to \$85,000,000 (the "Series C Commercial Paper Notes");

**WHEREAS**, on \_\_\_\_\_, 2018, the City adopted Resolution No. \_\_\_\_\_ to amend and restate the Original Subordinated Bond Resolution (the "Subordinated Bond Resolution"); and

**WHEREAS**, on \_\_\_\_\_, 2018, the City also adopted Resolution No. \_\_\_\_\_ (the "Authorizing Resolution" and collectively with the Subordinated Bond Resolution, the "Resolutions") to amend and supplement the Second Supplemental Subordinated Resolution to increase the maximum aggregate principal amount of the Series C Commercial Paper Notes that may be Outstanding at any one time to \$125,000,000 and to extend the Commercial Paper Program authorized thereunder for an additional 30 years (such terms, and all other capitalized terms used herein without definition, having the respective meanings assigned thereto in the Resolutions); and

**WHEREAS**, the Authorizing Resolution also authorizes the issuance of an additional \$40,000,000 in aggregate principal amount of Series C Commercial Paper Notes within such increased approved maximum aggregate principal amount of the Series C Commercial Paper Notes; and

**WHEREAS**, in connection with the issuance of such additional Commercial Paper Notes, it is necessary and desirable to amend the Original Agreement in the manner provided herein;

**NOW THEREFORE**, the parties hereto agree as follows:

1. Amendment of Section 3(e) of the Original Agreement. The first paragraph of Section 3(e) of the Original Agreement is hereby amended to replace the dollar amount of "\$85,000,000" in clause (x) thereof with the dollar amount of "\$125,000,000".

2. Miscellaneous.

(a) In all respects not specifically mentioned herein, the Original Agreement shall remain in full force and effect without change.

(b) THIS SECOND AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF FLORIDA.

(c) This Second Amendment may be executed in any number of counterparts, all of which when taken together shall be deemed to constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

**IN WITNESS WHEREOF**, the parties have executed this Second Amendment, as of the date first above written.

CITY OF GAINESVILLE, FLORIDA

By: \_\_\_\_\_  
Title: General Manager for Utilities  
Date: \_\_\_\_\_, 2018

Approved as to Form and Legality:

\_\_\_\_\_  
City Attorney

U.S. BANK NATIONAL ASSOCIATION

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_, 2018

#55898891\_v3

EXHIBIT "E"

OFFERING MEMORANDUM

COMMERCIAL PAPER OFFERING MEMORANDUM DATED \_\_\_\_\_, 2018

For a description of opinions rendered or to be rendered pertaining to the hereinafter defined CP Notes described herein, see "LEGAL MATTERS" and "TAX MATTERS" herein.

**City of Gainesville, Florida  
Utilities System  
Commercial Paper Notes**

**Not to Exceed  
\$125,000,000  
Series C**

**Not to Exceed  
\$25,000,000  
Series D  
(Federally Taxable)**



**RATINGS: See "RATINGS" herein**

This Offering Memorandum is being furnished in connection with the sale from time to time by the City of Gainesville, Florida (the "City") of its Utilities System Commercial Paper Notes, Series C in an aggregate principal amount of not to exceed \$125,000,000 (the "Series C Notes") and its Utilities System Commercial Paper Notes, Series D (Federally Taxable) in an aggregate principal amount of not to exceed \$25,000,000 (the "Series D Notes," and together with the Series C Notes, the "CP Notes").

Liquidity support for the Series C Notes is provided by Bank of America, N.A. (the "Series C Bank") pursuant to a Credit Agreement dated as of November 30, 2015 (the "Series C Credit Agreement"), pursuant to which the Series C Bank has agreed to make revolving credit loans up to the commitment amount of \$125,000,000. The Series C Credit Agreement will expire on November 30, 2018.

Liquidity support for the Series D Notes is provided by State Street Bank and Trust Company (the "Series D Bank") pursuant to a Credit Agreement dated as of August 1, 2014 (the "Series D Credit Agreement"), pursuant to which the Series D Bank has agreed to make revolving credit loans up to the commitment amount of \$25,000,000. The Series D Credit Agreement will expire on August 28, 2017.

The Series C Notes are issued pursuant to the Subordinated Utilities System Revenue Bond Resolution, adopted January 26, 1989, as amended and supplemented (the "Original Subordinated Bond Resolution"), as particularly supplemented pursuant to the Second Supplemental Subordinated Utilities System Revenue Bond Resolution, adopted October 5, 1992, as supplemented and amended (collectively, the "Second Supplemental Subordinated Bond Resolution"). The Series D Notes are issued pursuant to the Original Subordinated Bond Resolution, as particularly supplemented pursuant to the Fourth Supplemental Subordinated Utilities System Revenue Bond Resolution, adopted June 15, 2000, as amended (the "Fourth Supplemental Subordinated Bond Resolution"). The Second Supplemental Subordinated Bond Resolution and the Fourth Supplemental Subordinated Bond Resolution are supplemental to the Second Amended and Restated Subordinated Utilities System Revenue Bond Resolution, adopted by the City on May \_\_, 2018 (as supplemented and amended, the "Subordinated Bond Resolution"), which amended and restated in its entirety the Amended and Restated Subordinated Utilities System Revenue Bond Resolution adopted on December 8, 2003. The Subordinated Bond Resolution was adopted pursuant to, and supplements, the Amended and Restated Utilities System Revenue Bond Resolution, adopted by the City on January 30, 2003, as supplemented and amended (the "Senior Bond Resolution"), as more particularly described herein.

All capitalized terms used in this Offering Memorandum and not otherwise defined herein shall have the meanings given to such terms in the Senior Bond Resolution or the Subordinated Bond Resolution, as applicable.

The CP Notes shall be direct and special obligations of the City payable from and secured by amounts in the Subordinated Indebtedness Fund (as defined in the Senior Bond Resolution and the Subordinated Bond Resolution) subject, however, to (i) the security interest in and pledge and assignment of the Trust Estate created by the Senior Bond Resolution as security for the Senior Lien Bonds, (ii) any security interest in or pledge or assignment of the Trust Estate created as security for any Parity Hedging Contract Obligations (as defined in the Senior Bond Resolution) and (iii) any security interest in or pledge or assignment of the Subordinated Indebtedness Fund created as security for any Parity Subordinated Indebtedness (as defined in the Subordinated Bond Resolution). The Trust Estate created by the Senior Bond Resolution includes "Revenues" consisting of the rates, fees, rentals, other charges and other income properly allocable to the City's combined and consolidated electric system, water system, wastewater system, natural gas system and telecommunications system. The Series C Notes are further secured by the Series C Note Payment Account created under the Second Supplemental Bond Resolution and the Series D Notes are further secured by the Series D Note Payment Account created under the Fourth Supplemental Bond Resolution.

THE CP NOTES SHALL 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 CP NOTES SHALL EVER 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, AND INTEREST ON, THE CP NOTES OR THE MAKING OF ANY PAYMENTS UNDER THE SERIES C CREDIT AGREEMENT OR THE SERIES D CREDIT AGREEMENT. THE CP NOTES AND THE OBLIGATIONS EVIDENCED THEREBY SHALL NOT CONSTITUTE A LIEN ON ANY PROPERTY OF OR IN THE CITY, OTHER THAN THE SUBORDINATED INDEBTEDNESS FUND AND THE APPLICABLE CP NOTE ACCOUNT AND CONSTRUCTION FUND, IF ANY, ESTABLISHED PURSUANT TO THE SUBORDINATED BOND RESOLUTION.

The Issuing Agent with respect to the CP Notes is U.S. Bank National Association, as successor issuing agent (the "Issuing Agent"), pursuant to the Amended and Restated Issuing and Paying Agency Agreement dated as of February 1, 1995, as amended and supplemented, including without limitation as amended by the First Amendment to Amended and Restated Issuing and Paying Agency Agreement dated as of January 1, 1999, as supplemented by the First Supplement to Amended and Restated Issuing and Paying Agency Agreement dated November 30, 2015. The exclusive dealer with respect to the CP Notes is Goldman, Sachs & Co. pursuant to a Dealer Agreement dated October 1, 1992, as amended pursuant to the First Amendment to Dealer Agreement, dated November 30, 2015 and the Second Amendment to Dealer Agreement dated March 1, 2017. The CP Notes shall be dated their respective dates of issuance and have such terms and conditions as set forth in a request from the City to the Issuing Agent to authenticate and deliver such CP Notes. The CP Notes shall mature on their respective maturity dates, shall be issued in such denominations and shall have a maximum interest rate calculated on the interest rate basis, all as shown in the table captioned "DENOMINATIONS, MATURITY DATES, MAXIMUM INTEREST RATES, INTEREST RATE BASIS AND INTEREST PAYMENT DATES" below. The CP Notes are not subject to redemption prior to their maturity dates. U.S. Bank National Association is the Subordinated Bond Paying Agent and the Subordinated Bond Registrar with respect to the CP Notes.

The CP Notes will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository therefor. So long as DTC, or its nominee is the registered owner of the CP Notes, payment of the principal of and interest on the CP Notes will be made directly to DTC or its nominee, which will remit payments to the DTC Participants (herein defined), which will, in turn, remit payments to the Beneficial Owners (as herein defined) of the CP Notes.

This cover page contains certain information for quick reference only and is not a summary of this issue. Investors must read this entire Offering Memorandum, including Appendices hereto and documents incorporated herein by reference.

**CITY OF GAINESVILLE, FLORIDA**

**Not to Exceed  
\$125,000,000  
UTILITIES SYSTEM  
COMMERCIAL PAPER NOTES,  
SERIES C**

**Not to Exceed  
\$25,000,000  
UTILITIES SYSTEM  
COMMERCIAL PAPER NOTES,  
SERIES D (Federally Taxable)**

**DENOMINATIONS, MATURITY DATES, MAXIMUM INTEREST RATES, INTEREST RATE BASIS AND INTEREST PAYMENT DATES**

	<b>Series C Notes</b>	<b>Series D Notes</b>
<b>Denominations:</b>	\$100,000 or any multiple of \$1,000 in excess thereof.	
<b>Maturity Date:</b>	No more than 270 days from the date of issuance thereof, but in no event later than the earlier of (1) the second Business Day preceding the Termination Date or (2) October 5, 2022 (or if such day is not a Business Day, the next preceding Business Day).	No more than 270 days from the date of issuance thereof, but in no event later than the earlier to occur of: (a) the second Business Day preceding the Termination Date, or (b) June 14, 2030 (or if such day is not a Business Day, the next preceding Business Day).
<b>Interest Rate and Interest Rate Basis:</b>	Not to exceed 15% per annum calculated on the basis of a 365-day year and actual days elapsed.	Not to exceed 20% per annum calculated on the basis of a 360-day year and actual days elapsed.
<b>Interest Payment Date:</b>	Interest on the CP Notes is payable on their respective maturity dates.	

**CITY OF GAINESVILLE, FLORIDA**

**ELECTED OFFICIALS<sup>(1)</sup>**

Lauren Poe .....Mayor (At Large)  
David Arreola .....Commissioner  
Adrian Hayes-Santos .....Commissioner  
Gail Johnson .....Commissioner (At Large)  
GiGi Simmons .....Commissioner  
Harvey Ward .....Commissioner  
Helen K. Warren .....Commissioner (At Large)

**APPOINTED OFFICIALS**

Anthony R. Lyons ..... City Manager  
Edward J. Bielarski, Jr. .... General Manager for Utilities  
Nicolle M. Shalley, Esq. .... City Attorney  
Omichele Gainey ..... Clerk of the Commission  
Carlos L. Holt ..... City Auditor  
Bridget Lee ..... Equal Opportunity Director (Interim)

**BOND COUNSEL**

Holland & Knight LLP  
Lakeland, Florida

**DISCLOSURE COUNSEL**

Bryant Miller Olive P.A.  
Tampa, Florida

**FINANCIAL ADVISOR**

Public Financial Management, Inc.  
Charlotte, North Carolina

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<sup>(1)</sup> The Mayor-Commissioner Pro-Tem will be chosen at the May 17, 2018 City Commission meeting.

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

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

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

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

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

THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE A CONTRACT BETWEEN THE CITY AND ANY ONE OR MORE OF THE OWNERS OF THE CP NOTES.

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## THE CP NOTES

### Authority for Issuance

The City of Gainesville, Florida Utilities System Commercial Paper Notes, Series C in an aggregate principal amount of not to exceed \$125,000,000 (the "Series C Notes") are issued under and pursuant to a resolution adopted by the City on October 5, 1992 entitled "Second Supplemental Subordinated Utilities System Revenue Bond Resolution," as heretofore and hereafter amended, as amended and supplemented by Resolution No. \_\_\_\_ adopted by the City on \_\_\_\_\_, 2018 (collectively, the "Second Supplemental Subordinated Bond Resolution"). The City of Gainesville, Florida Utilities System Commercial Paper Notes, Series D (Federally Taxable) in an aggregate principal amount of not to exceed \$25,000,000 (the "Series D Notes," and together with the Series C Notes, the "CP Notes") are issued under and pursuant to a resolution adopted by the City on June 15, 2000 entitled "Fourth Supplemental Subordinated Utilities System Revenue Bond Resolution," as heretofore amended (the "Fourth Supplemental Subordinated Bond Resolution"). The Second Supplemental Subordinated Bond Resolution and the Fourth Supplemental Subordinated Bond Resolution are supplemental to the Second Amended and Restated Subordinated Utilities System Revenue Bond Resolution, adopted by the City on May \_\_, 2018 (as supplemented and amended, the "Subordinated Bond Resolution"), which amended and restated in its entirety the Amended and Restated Subordinated Utilities System Revenue Bond Resolution adopted on December 8, 2003. The Subordinated Bond Resolution authorizes the issuance by the City from time to time of its Subordinated Utilities System Revenue Bonds (the "Subordinated Bonds"). The CP Notes constitute Subordinated Bonds within the meaning of the Subordinated Bond Resolution.

Resolution No. \_\_\_\_ adopted by the City on \_\_\_\_\_, 2018 contains certain amendments to the Second Supplemental Subordinated Bond Resolution, including the increase of Series C Notes that may be Outstanding at any one time from \$85,000,000 to \$125,000,000 and the extension of the CP Notes program for an additional 30 years.

The Subordinated Bond Resolution was adopted pursuant to, and supplements the Amended and Restated Utilities System Revenue Bond Resolution, adopted by the City on January 30, 2003, as supplemented and amended (collectively, the "Senior Bond Resolution"), which authorizes the issuance by the City from time to time of its bonds, notes or other evidences of indebtedness, as described in the Senior Bond Resolution, which have a lien on the Revenues that is senior to the hereinafter defined Subordinated Indebtedness (the "Senior Lien Bonds") and subordinated indebtedness payable from amounts on deposit in the Subordinated Indebtedness Fund created thereunder (the "Subordinated Indebtedness"). See "APPENDIX C-1 – Composite of the Senior Bond Resolution", "APPENDIX C-2 – Springing Amendments to the Senior Bond Resolution" attached hereto and "SECURITY FOR THE CP NOTES – Senior Lien Bonds and Senior Bond Resolution" below for a more complete description of the Senior Bond Resolution and springing amendments adopted thereto. The CP Notes constitute "Subordinated Indebtedness" within the meaning of the Senior Bond Resolution, and are junior and subordinate in all respects to the Senior Lien Bonds issued under the Senior Bond Resolution. See "SECURITY FOR THE CP NOTES" and "OUTSTANDING DEBT" herein.

The Second Supplemental Subordinated Bond Resolution permits the issuance of not to exceed \$125,000,000 in aggregate principal amount of Series C Notes at any one time outstanding for purposes of (i) paying the principal of, and interest on, maturing Series C Notes, (ii) repaying loans under the Series C Credit Agreement (hereinafter defined) and (iii) financing the costs of acquisition and construction of the

System. As of the date of this Offering Memorandum, the City had outstanding \$45,000,000 in aggregate principal amount of Series C Notes. Additionally, the City is planning to issue an additional \$40,000,000 in aggregate principal amount of Series C Notes to finance a portion of the Cost of Acquisition and Construction of the System.

The Fourth Supplemental Subordinated Bond Resolution currently permits the issuance of not to exceed \$25,000,000 in aggregate principal amount of Series D Notes at any one time outstanding. The Series D Notes may be issued for purposes of: (i) financing the costs of acquisition and construction of the System, (ii) paying the principal of maturing Series D Notes and (iii) repaying borrowings under the Series D Credit Agreement (hereinafter defined). As of the date of this Offering Memorandum, there is \$8,000,000 in aggregate principal amount of Series D Notes outstanding.

In addition to the Subordinated Indebtedness listed above, the City intends to issue on or about \_\_\_\_\_, 2018 a revolving line of credit with SunTrust Bank on parity with the CP Notes to finance the Cost of Acquisition and Construction of the System (the "SunTrust Loan").

See "OUTSTANDING DEBT" herein for more information.

### **Issuing Agent**

The Issuing Agent with respect to the CP Notes is U.S. Bank National Association, as successor issuing agent, pursuant to the Amended and Restated Issuing and Paying Agency Agreement dated as of February 1, 1995, as amended and supplemented, including without limitation as amended by the First Amendment to Amended and Restated Issuing and Paying Agency Agreement dated of January 1, 1999, as supplemented by the First Supplement to Amended and Restated Issuing and Paying Agency Agreement dated November 30, 2015 (the "Issuing Agreement").

### **Dealer**

The exclusive dealer with respect to the CP Notes is Goldman, Sachs & Co. pursuant to a Dealer Agreement dated October 1, 1992, as amended pursuant to the First Amendment to Dealer Agreement, dated November 30, 2015 and as amended pursuant to the Second Amendment to Dealer Agreement dated March 1, 2017.

### **Terms of CP Notes**

The CP Notes shall be dated their respective dates of issuance and have such terms and conditions as set forth in a request from the City to the Issuing Agent to authenticate and deliver such CP Notes. The CP Notes shall mature on their respective maturity dates, shall be issued in such denominations and shall have a maximum interest rate calculated on the interest rate basis, all as shown in the table captioned "DENOMINATIONS, MATURITY DATES, MAXIMUM INTEREST RATES, INTEREST RATE BASIS AND INTEREST PAYMENT DATES" above. The CP Notes are not subject to redemption prior to their maturity dates.

The CP Notes will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository therefor. So long as DTC, or its nominee, is the registered owner of the CP Notes, payment of the principal of and interest on the CP Notes will be made directly to DTC or its nominee, which will remit payments to the DTC

Participants (herein defined), which will, in turn, remit payments to the Beneficial Owners (as herein defined) of the CP Notes. See "—Book-Entry Only System" below.

U.S. Bank National Association is the Subordinated Bond and the Subordinated Bond Registrar with respect to the CP Notes.

### **No Early Redemption**

The CP Notes are not subject to redemption prior to their stated maturity dates.

### **Book-Entry Only System**

The CP Notes have been issued in book-entry form through the book-entry system of DTC. However, the City reserves the right to issue any or all of the CP Notes in bearer form without coupons. Any CP Notes issued in book-entry form through the book-entry system of DTC shall be subject to the discussion set forth below. Any CP Notes issued in bearer form will be payable at the Corporate Trust Department of U.S. Bank National Association, 100 Wall Street, Suite 1600, New York, New York 10005, as Issuing Agent.

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

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

DTC will act as securities depository for the CP Notes. The CP Notes 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 CP Notes certificate will be issued for each issue of the CP Notes in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money

market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Direct Participants and the Indirect Participants are collectively referred to herein as the "DTC Participants." DTC has an S&P Global Inc. ("S&P") rating of AA+. The DTC Rules applicable to its DTC Participants are on file with the Securities and Exchange Commission (the "SEC"). More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of CP Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the CP Notes on DTC's records. The ownership interest of each actual purchaser of each CP Note ("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 CP Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the CP Notes, except in the event that use of the book-entry system for the CP Notes is discontinued.

To facilitate subsequent transfers, all CP Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the CP Notes 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 CP Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such CP Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of CP Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the CP Notes, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of CP Notes may wish to ascertain that the nominee holding the CP Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Subordinated Bond Registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the CP Notes 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 CP Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal and interest on the CP Notes 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 or the Issuing Agent, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant and not of DTC, the Issuing Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City and/or the Issuing 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.

DTC may discontinue providing its services as depository with respect to the CP Notes at any time by giving reasonable notice to the City or Issuing Agent. Under such circumstances, in the event that a successor depository is not obtained, the CP Notes are required to be printed and delivered.

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

### **No Continuing Disclosure Undertaking**

Pursuant to certain exceptions under Rule 15(c)(2)(12) of the SEC (the "Rule"), the City is not required to, and does not intend to, provide any continuing disclosure with respect to the CP Notes. However, in connection with the issuance of certain other outstanding debt of the City, the City has undertaken to file on the designated repository of the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access system ("EMMA") certain annual financial information and operating data relating to the System, including audited financial statements of the System, and to provide notices of the occurrence of certain enumerated events. Holders and potential purchasers of the CP Notes may access such information on EMMA.

## **SECURITY FOR THE CP NOTES**

### **General**

The CP Notes are direct and special obligations of the City payable from and secured by amounts in the Series C Note Payment Account (with respect to the Series C Notes) (the "Series C Note Payment Account") and the Series D CP Note Payment Account (with respect to the Series D Notes) (the "Series D Note Payment Account") held by the Issuing Agent and amounts in the Subordinated Indebtedness Fund

held by U.S. Bank National Association, as Trustee under the Senior Bond Resolution. The security interest in and pledge of amounts held in the Subordinated Indebtedness Fund for the CP Notes (a) is subject and subordinate to the security interest in and pledge and assignment of the Trust Estate created by the Senior Bond Resolution as security for the Senior Lien Bonds and Parity Hedging Contract Obligations and (b) is on a parity with the Series A Bank Bond, the Series B Bank Bond and any additional Subordinated Bonds and Parity Subordinated Indebtedness which may be issued in the future. The Trust Estate created by the Senior Bond Resolution includes "Revenues" consisting of the rates, fees, rentals, other charges and other income properly allocable to the City's combined and consolidated electric system, water system, wastewater system, natural gas system and telecommunications system.

THE CP NOTES SHALL 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 CP NOTES SHALL EVER 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, AND INTEREST ON, THE CP NOTES OR THE MAKING OF ANY PAYMENTS UNDER THE SERIES C CREDIT AGREEMENT OR THE SERIES D CREDIT AGREEMENT. THE CP NOTES AND THE OBLIGATIONS EVIDENCED THEREBY DO NOT CONSTITUTE A LIEN ON ANY PROPERTY OF OR IN THE CITY, OTHER THAN THE APPLICABLE CP NOTE PAYMENT ACCOUNT AND CONSTRUCTION FUND, IF ANY, AND THE SUBORDINATED INDEBTEDNESS FUND.

#### **Series C Bank and Series C Credit Agreement**

Liquidity support for the Series C Notes is provided by the Series C Bank pursuant to the Series C Credit Agreement, pursuant to which the Series C Bank has agreed to make revolving credit loans in accordance therewith. The Series C Bank is obligated, subject to the satisfaction of the conditions set forth therein, to advance the amount of each revolving credit loan for the purpose of paying the principal amount of maturing Series C Notes, to the extent other moneys are not available therefor, until the Termination Date (currently November 30, 2018, which date can be extended by agreement of the City and the Series C Bank) or such earlier date as the Series C Credit Agreement, by its terms, may terminate or the Series C Bank's lending commitment thereunder shall be suspended. The Series C Credit Agreement provides for same day availability of funds up to a maximum of \$85,000,000. The City has issued the Series A Bank Bond to evidence any loans made by the Series C Bank under the Series C Credit Agreement. The Series A Bank Bond has been issued under the Subordinated Bond Resolution and payment thereon is secured on a parity with the CP Notes and other indebtedness issued and outstanding under the Subordinated Bond Resolution with respect to the Revenues of the System.

The City has covenanted in the Second Supplemental Subordinated Bond Resolution that it will at all times maintain an available commitment under the Series C Credit Agreement (or a substitute liquidity support arrangement) equal to the principal of the outstanding Series C Notes. Under the Second Supplemental Subordinated Bond Resolution, the City covenanted that it will not substitute another liquidity support agreement for the Series C Credit Agreement then in effect, nor will it permit or allow any bank to assign all or any part of its obligation to make loans under the Series C Credit Agreement unless, in any such case, prior to such substitution or assignment, as the case may be, the City shall have received written evidence from each rating agency then rating the Series C Notes to the effect that such substitution or assignment, as the case may be, will not, by itself, result in a reduction or withdrawal of such rating agency's ratings of the Series C Notes from those which then prevail.

Information regarding the Series C Bank and a copy of the Series C Credit Agreement are included in "APPENDIX F – Information Regarding Series C Bank and the Series C Credit Agreement" hereto.

### **Series D Bank and Series D Credit Agreement**

Liquidity support for the Series D Notes is provided by the Series D Bank pursuant to the Series D Credit Agreement, pursuant to which the Series D Bank is obligated, subject to the satisfaction of the conditions set forth therein and so long as certain events of default on the part of the City thereunder have not occurred, to advance the amount of each loan requested on behalf of the City for the purpose of paying the principal amount of maturing Series D Notes, to the extent other moneys are not available therefor, until the Termination Date (currently August 28, 2020, which date can be extended by agreement of the City and the Series D Bank) or such earlier date as the Series D Credit Agreement, by its terms, may terminate or the Series D Bank's lending commitment thereunder shall be suspended. The Series D Credit Agreement provides for same day availability of funds up to a maximum of \$25,000,000. The City has issued the Series B Bank Bond to evidence any loans made by the Series D Bank under the Series D Credit Agreement. The Series B Bank Bond has been issued under the Subordinated Bond Resolution and payment thereon is secured on a parity with the CP Notes and other indebtedness issued and outstanding under the Subordinated Bond Resolution with respect to the Revenues of the System.

Under the Fourth Supplemental Subordinated Bond Resolution, the City has the right to substitute another liquidity support arrangement for the Series D Credit Agreement or to permit the Series D Bank to assign all or any part of its obligation to make loans under the Series D Credit Agreement, but only if either (a) prior to such substitution or assignment, as the case may be, the City has received written confirmation from each rating agency then rating the Series D Notes to the effect that such substitution or assignment will not, by itself, result in a reduction or withdrawal of such rating agency's ratings of the Series D Notes from those which then prevail or (b) such substitution or assignment by its terms provides that it will not be effective with respect to each particular Series D Note issued prior to the date on which such substitution or assignment is effective.

The City has covenanted in the Fourth Supplemental Subordinated Bond Resolution that it will at all times maintain an available commitment under the Series D Credit Agreement (or a substitute liquidity support arrangement) equal to the principal of the outstanding Series D Notes.

Information regarding the Series D Bank and a copy of the Series D Credit Agreement are included in "APPENDIX G – Information Regarding Series D Bank and the Series D Credit Agreement" hereto.

### **CP Note Payment Accounts**

The Second Supplement Subordinated Bond Resolution creates the Series C Note Payment Account to be held as additional security for the Series C Notes. Amounts on deposit in the Series C Note Payment Account shall be (i) used to pay principal of and interest on the Series C Notes and the Series A Bank Bond, respectively, or, (ii) so long as no Tender Event (as defined in the Series C Credit Agreement) should have occurred and be continuing, wired to the City for deposit to the Construction Fund and applied to the payment of a portion of the Cost of Acquisition and Construction of the System, as applicable.

The Fourth Supplemental Bond Resolution creates the Series D Note Payment Account to be held as additional security for the Series D Notes. Amounts on deposit in the Series D Note Payment Account shall be (i) used to pay principal of and interest on the Series D Notes and the Series B Bank Bond, respectively, or, (ii) so long as no Tender Event (as defined in the Series D Credit Agreement) should have occurred and be continuing, wired to the City for deposit to the Construction Fund and applied to the payment of a portion of the Cost of Acquisition and Construction of the System, as applicable.

Proceeds from the sale of Series C Notes and Series D Notes are required to be (i) deposited into the Series C Note Payment Account or the Series D Note Payment Account, respectively, (ii) transferred to the Series C Bank or the Series D Bank for amounts owed with respect to the Series A Bank Bond or Series B Bank Bond, respectively, or (iii) wired to the City and deposited to the Construction Fund for use for the Costs of Acquisition and Construction of the System, as applicable.

### **Subordinated Indebtedness Fund**

The CP Notes are also secured by a pledge under the Subordinated Bond Resolution of amounts on deposit in the Subordinated Indebtedness Fund held under the Senior Bond Resolution. Such pledge is on a parity with any pledge thereof created as security for any Parity Subordinated Indebtedness and is subordinate in all respects to (A) the pledge of the Trust Estate, as defined in the Senior Bond Resolution, created by the Senior Bond Resolution in favor of the Senior Lien Bonds and (B) any pledge of the Trust Estate by the Senior Bond Resolution created as security for any Parity Hedging Contract Obligations, as defined in the Senior Bond Resolution. The Trust Estate includes the Revenues of the System. For historic financial information regarding Revenues, see "THE SYSTEM" herein.

Amounts in the Subordinated Indebtedness Fund are required by the Subordinated Bond Resolution to be applied to the payment of the principal of and interest on the Subordinated Bonds, including the CP Notes, when due to the extent that moneys are not available in any Subordinated Bond Payment Account established with respect to a particular series of Subordinated Bonds (with respect to the Series C Notes, the Series C Note Payment Account and with respect to the Series D Notes, the Series D Note Payment Account).

### **Senior Lien Bonds and Senior Bond Resolution**

Pursuant to the Senior Bond Resolution, the City is authorized to issue Senior Lien Bonds secured by a pledge and assignment of (i) the proceeds of the sale of the Senior Lien Bonds, (ii) the Revenues derived by the City from the operation of the System and (iii) all funds established by the Senior Bond Resolution (other than the Debt Service Reserve Account in the Debt Service Fund established pursuant to the Senior Bond Resolution which will secure only certain designated series of Senior Lien Bonds and any fund which may be established pursuant to the Senior Bond Resolution for decommissioning and certain other specified purposes), including the investments and income, if any, thereof (collectively, the "Trust Estate"). See "OUTSTANDING DEBT" below for a description of Senior Lien Bonds currently outstanding under the Senior Bond Resolution.

The City intends to implement Springing Amendments to the Senior Bond Resolution which, upon becoming effective, will modify certain provisions of the Senior Bond Resolution in the future. The City expects to receive the consent of the a majority of principal amount of the Outstanding Senior Lien Bonds upon the closing of the mandatory tender and reissuance of the Variable Rate Utilities System Revenue Bonds, 2007 Series A (the "2007 Series A Bonds"). The Springing Amendments will then become

effective forty (40) days following the reissuance of the 2007 Series A Bonds on or about \_\_\_\_\_, 2018, so long as no legal action or equitable proceeding is commenced pursuant to Section 1103 of the Senior Bond Resolution within such forty (40) day period. See "APPENDIX C-2 – Springing Amendments to the Senior Bond Resolution" attached hereto.

Reference is made to the Senior Bond Resolution, which is hereby incorporated by reference as if fully stated herein, for a review of the complete requirements for the issuance of additional Senior Lien Bonds and refunding Senior Lien Bonds. See APPENDIX C1 and APPENDIX C2 attached hereto for a full copy of the Senior Bond Resolution and all Springing Amendments thereto.

### **Additional Subordinated Bonds**

The City may issue additional Subordinated Bonds under the Subordinated Bond Resolution on a parity with the lien of the CP Notes on the Subordinated Indebtedness Fund, except in the case of any Series of Refunding Subordinated Bonds and any Series of Special Subordinated Bonds, so long as there shall have been obtained and filed with the Trustee a certificate signed by an Authorized Officer of the City pursuant to which he or she shall state and certify the following:

(a) The amount of Revenues, as determined under standard auditing procedures but adjusted as hereinafter provided (the "Adjusted Gross Revenues"), for, at the option of the City, any twelve (12) consecutive months out of the twenty-four (24) consecutive months immediately preceding the date of issue of the proposed additional Subordinated Bonds or the most recently completed audited Fiscal Year (the "Audit Period") and amount of the Operation and Maintenance Expenses for the Audit Period, as determined under standard auditing procedures but adjusted as hereinafter provided (the "Adjusted Operation and Maintenance Expenses").

(b) In determining the amount of Adjusted Gross Revenues for the Audit Period, such Authorized Officer of the City may take into account the amount by which Revenues would have increased if or as a result of: (i) the number of customers served by the System during the Audit Period had included the number of new customers of the System attributable to a privately owned or publicly owned existing electric system, water system, wastewater system, natural gas system, telecommunications system or other utility system to be acquired with the proceeds of such additional Subordinated Bonds, had the acquisition occurred at the beginning of the Audit Period, (ii) the number of customers served by the System during the Audit Period had included the average number of new customers of the System that by ordinance, agreement, law or regulation will be required to connect to the System during the first full Fiscal Year following the Fiscal Year in which such proposed additional Bonds are issued, which amount may be based on projections of an Independent Consultant (the "Applicable Bond Year"), or the first full Fiscal Year after completion of such project if the such project will not be completed prior to the commencement of the applicable Fiscal Year, (iii) any changes in the rate schedules for customers and users of the System which the City shall then have in effect, or has enacted by ordinance or resolution on or before the date of such certificate and which the City has covenanted to put into effect during the Applicable Bond Year, had such rate changes been effective on the first day of the Audit Period, and (iv) the amount required to be paid by a public body on an annual basis in connection with a contract with a duration at least equal to the term of the proposed additional Subordinated Bonds, pursuant to which contract the City shall agree to furnish water or electric power, or to furnish services for the collection, treatment or disposal of sewage or agreed to furnish other services in connection with any other utility system for such public body, as if such contract had been in effect on

the first day of the Audit Period. If any adjustments permitted by clauses (i), (ii) or (iv) of the preceding sentence shall be made, in determining the amount of the Adjusted Operation and Maintenance Expenses, such Authorized Officer shall take into account the estimated amount by which the Operation and Maintenance Expenses for the Audit Period would have increased had the Project to be financed with the proceeds of such additional Subordinated Bonds been in operation from the beginning of the Audit Period, provided, however, it may take into account any adjustments necessary to reflect government ownership of any projects acquired from private owners. In projecting numbers of new customers for the purposes of clause (ii) of this paragraph, there shall be taken into account only dwellings, buildings or other structures in existence on the date of such projections.

(c) The amount of the Maximum Aggregate Debt Service for any Fiscal Year thereafter on account of all Bonds then Outstanding under the Senior Bond Resolution and all Subordinated Bonds then Outstanding under the Subordinated Bond Resolution and the additional Subordinated Bonds proposed to be issued thereunder.

(d) The amount, if any, required to be deposited from Revenues into the Debt Service Reserve Account pursuant to Senior Bond Resolution or into any subaccount therein in the Applicable Bond Year pursuant to the terms of a supplemental ordinance or resolution.

(e) Based upon the foregoing, the Authorized Officer is of the opinion that the Adjusted Gross Revenues for the Audit Period, less one hundred percent (100%) of the Adjusted Operation and Maintenance Expenses for the Audit Period, shall equal or exceed the sum of one hundred percent (100%) of the amount to be deposited to the Reserve Fund as described in paragraph (d) above and one hundred percent (100%) of the Maximum Aggregate Debt Service referred to in paragraph (c) above for the Applicable Bond Year.

### **Rate Covenants**

Pursuant to the Senior Bond Resolution, the City is required to establish and collect rates, fees and charges for the use or the sale of the output, capacity or service of the System which, together with other available Revenues, are reasonably expected to yield Net Revenues which, subject to certain allowable exclusions, shall be at least equal to 1.25 times the Aggregate Debt Service on the Outstanding Senior Lien Bonds for the forthcoming 12 month period and, in any event, as shall be required, together with other available funds, to pay or discharge all other indebtedness, charges and liens whatsoever payable out of Revenues under the Senior Bond Resolution and promptly upon any material change in the circumstances which were contemplated at the time such rates, fees and charges were most recently reviewed, but not less frequently than once in each Fiscal Year, the City shall review the rates, fees and charges so established and shall promptly revise such rates, fees and charges as necessary to comply with the foregoing requirements, provided that such rates, fees and charges shall in any event produce moneys sufficient to enable the City to comply with all its covenants under the Senior Bond Resolution.

Pursuant to the Subordinated Bond Resolution, the City is required to establish and collect rates, fees and charges for the use or the sale of the output, capacity or service of the System which, together with other available Revenues, are reasonably expected to yield Net Revenues which, subject to certain allowable exclusions, shall be at least equal to the sum of (a) the Aggregate Debt Service on the Outstanding Senior Lien Bonds for the forthcoming 12 month period, (b) the Aggregate Subordinated Debt Service on the outstanding Subordinated Bonds for the forthcoming 12 month period, and (c) the Parity Subordinated Indebtedness Debt Service on the outstanding Parity Subordinated Indebtedness for

the forthcoming 12 month period, and, in any event, as shall be required, together with other available funds, to pay or discharge all other indebtedness, charges and liens whatsoever payable out of Revenues under the Senior Bond Resolution and the Subordinated Bond Resolution and to comply with all the covenants of the City contained in the Senior Bond Resolution and the Subordinated Bond Resolution.

## **THE SUBORDINATED BOND RESOLUTION**

In addition to the provisions described herein, the Subordinated Bond Resolution contains covenants and agreements related to the CP Notes and other Subordinated Bonds, including, but not limited to, events of default, application of moneys after default, remedies, defeasance of the CP Notes, modifications to the Senior Bond Resolution and Subordinated Bond Resolution with and without the consent of holders of the Subordinated Bonds and circumstances under which a credit enhancer, such as the Series C Bank and Series D Bank may consent on behalf of holders of Subordinated Bonds. Reference is made to full copies of the Senior Bond Resolution, the Subordinated Bond Resolution, the Second Supplemental Subordinated Bond Resolution and the Fourth Supplemental Subordinated Bond Resolution for such provisions. See APPENDIX D attached hereto for a copy of the Subordinated Bond Resolution of each which such provisions are hereby incorporated by reference as if fully set forth herein.

## **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

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

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

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

The City expressly disclaims any obligation to update any forward-looking statements.

## OUTSTANDING DEBT

The following table sets forth the outstanding debt of the City issued for the System as of April 1, 2018.

### Outstanding Debt of the City Issued for the System<sup>(1)</sup>

Description	As of April 1, 2018 <sup>(1)</sup>		
	Interest Rates	Due Dates (October 1)	Principal Outstanding <sup>(1)</sup>
Utilities System Revenue Bonds			
2005 Series A	4.75%	2029 – 2036	\$405,000
2005 Series B (federally taxable)	5.31% <sup>(2)(3)</sup>	2017 – 2021	13,990,000
2005 Series C	Variable <sup>(2)(4)</sup>	2026	26,225,000
2006 Series A	Variable <sup>(2)(5)</sup>	2026	18,410,000
2007 Series A	Variable <sup>(2)(6)</sup>	2036	136,545,000
2008 Series A (federally taxable)	5.02– 5.27% <sup>(2)(3)</sup>	2017 – 2020	16,475,000
2008 Series B	Variable <sup>(2)(7)</sup>	2038	90,000,000
2009 Series B (federally taxable)	4.498 – 5.655%	2017 – 2039	147,905,000
2010 Series A (federally taxable)	5.874%	2027 – 2030	12,930,000
2010 Series B (federally taxable)	6.024%	2034 – 2040	132,445,000
2010 Series C	5.00 – 5.25%	2017 – 2034	13,025,000
2012 Series A	2.50 – 5.00%	2021 – 2028	81,860,000
2012 Series B	Variable <sup>(8)</sup>	2042	100,470,000
2014 Series A	2.50% – 5.00%	2021 – 2044	37,835,000
2014 Series B	3.125 – 5.00%	2017 – 2036	24,900,000
2017 Series A	4.00-5.00%	2018-2040	415,920,000
2017 Series B	Variable <sup>(2)(9)</sup>	2044	150,000,000
2017 Series C	Variable <sup>(2)</sup>	2047	115,000,000
Total Utilities System Revenue Bonds			\$1,534,340,000
Utilities System Commercial Paper Notes			
Series C	Variable <sup>(2)(10)</sup>	<sup>(11)</sup>	\$45,000,000 <sup>(12)</sup>
Series D	Variable <sup>(2)</sup>	<sup>(13)</sup>	8,000,000
Total Subordinated Bonds <sup>(14)</sup>			\$53,000,000

[Footnotes continued on following pages]

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- (1) Information in this table, Outstanding Debt of the City Issued for the System, reflects principal balances as of April 1, 2018. Given the audit reflects the fiscal year ending on September 30<sup>th</sup>, the principal amounts in the audit will be different than the principal amounts in the table if that series of bonds had principal amortization on October 1, 2017.
- (2) See Note 9 to the audited financial statement of the System for the fiscal year ending September 30, 2017 included as Appendix B to this Reoffering Memorandum for a discussion of the various risks borne by the City relating to interest rate swap transactions.
- (3) The City has entered into a floating-to-floating rate interest rate swap transaction (the "2005 Series B Swap Transaction") with respect to a pro rata portion of each of the maturities of the Utilities System Revenue Bonds, 2005 Series B (Federally Taxable) (the "2005 Series B Bonds"). The initial notional amount of the 2005 Series B Swap Transaction was \$45,000,000, which corresponded to approximately 73.1% of the principal amount of each maturity of the 2005 Series B Bonds. The counterparty to the 2005 Series B Swap transaction currently has a counterparty risk rating of "Aa2" from Moody's Investors Service, Inc. ("Moody's") and a counterparty credit rating of "AA-" from S&P. The term of the 2005 Series B Swap Transaction was identical to the term of the 2005 Series B Bonds, and the notional amount of the 2005 Series B Swap Transaction was scheduled to amortize at the same times and in the same amounts as the pro rata portion of the 2005 Series B Bonds to which it related. The 2005 Series B Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the 2005 Series B Swap Transaction, the City will pay to the counterparty a rate equal to the SIFMA Municipal Swap Index (formerly known as the BMA Municipal Swap Index) and will receive from the counterparty a rate equal to 77.14% of the one-month LIBOR rate. The effect of the 2005 Series B Swap Transaction was to synthetically convert the interest rate on such pro rata portion of the 2005 Series B Bonds from a taxable rate to a tax-exempt rate. The City has designated the 2005 Series B Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution. On August 2, 2012, \$31,560,000 of the taxable 2005 Series B Bonds (the "Refunded Taxable 2005 Bonds") were redeemed with proceeds from the issuance of the City's tax-exempt Variable Rate Utilities System Revenue Bonds, 2012 Series B (the "2012 Series B Bonds"). As a result, the 2005 Series B Swap Transaction no longer served as a hedge against the 2005 Series B Bonds. However, since the City had other taxable Bonds outstanding, the City left that portion of the 2005 Series B Swap Transaction allocable to the Refunded Taxable 2005 Bonds outstanding following the issuance of the 2012 Series B Bonds, as a partial hedge against the interest rates to be borne by such other taxable Bonds, although such portion of the 2005 Series B Swap Transaction does not specifically match, in terms of its notional amount and amortization, any particular Series and maturity of such other taxable Bonds.
- (4) In connection with the issuance of the 2005 Series C Bonds, the City entered into a floating-to-fixed rate interest rate swap transaction (the "2005 Series C Swap Transaction") with respect to the 2005 Series C Bonds. The counterparty to the 2005 Series C Swap Transaction currently has a counterparty credit rating of "Aa3" from Moody's and a counterparty credit rating of "A+" from S&P. The term of the 2005 Series C Swap Transaction was identical to the term of the 2005 Series C Bonds, and the notional amount of the 2005 Series C Swap Transaction was scheduled to amortize at the same times and in the same amounts as the 2005 Series C Bonds. The 2005 Series C Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the 2005 Series C Swap Transaction, the City will pay to the counterparty a fixed rate of 3.20% per annum and will receive from the counterparty a rate equal to 60.36% of the ten-year LIBOR swap rate. The effect of the 2005 Series C Swap Transaction was to synthetically fix the interest rate on the 2005 Series C Bonds at a rate of

approximately 3.20% per annum, although the City bears basis risk, which may be positive or negative, between the rate received on the 2005 Series C Swap Transaction and the rate paid on the 2005 Series C Bonds, which could result in a realized rate over time that may be lower or higher than the 3.20% rate payable by the City under the 2005 Series C Swap Transaction. The City has designated the 2005 Series C Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution. On August 2, 2012, \$17,570,000 of the 2005 Series C Bonds (such portion of the 2005 Series C Bonds is referred to herein as the "Refunded Tax-Exempt 2005 Bonds") were redeemed with proceeds from the issuance of the 2012 Series B Bonds. The City left that portion of the 2005 Series C Swap Transaction allocable to the Refunded Tax-Exempt 2005 Bonds outstanding following the issuance of the 2012 Series B Bonds, as a partial hedge against the interest rates to be borne by the 2012 Series B Bonds, although such portion of the 2005 Series C Swap Transaction does not specifically match, in terms of its notional amount and amortization, the 2012 Series B Bonds.

(5) In contemplation of the issuance of the 2006 Series A Bonds, in September 2005, the City entered into a forward-starting floating-to-fixed rate interest rate swap transaction (as amended, the "2006 Series A Swap Transaction") with respect to the 2006 Series A Bonds. The counterparty to the 2006 Series A Swap Transaction currently has a counterparty risk rating of "Aa2" from Moody's and a counterparty credit rating of "AA-" from S&P. The term of the 2006 Series A Swap Transaction was identical to the term of the 2006 Series A Bonds, and the notional amount of the 2006 Series A Swap Transaction was scheduled to amortize at the same times and in the same amounts as the 2006 Series A Bonds. The 2006 Series A Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the 2006 Series A Swap Transaction, the City will pay to the counterparty a fixed rate of 3.224% per annum and will receive from the counterparty a rate equal to 68% of the ten-year LIBOR swap rate minus 36.5 basis points. The effect of the 2006 Series A Swap Transaction was to synthetically fix the interest rate on the 2006 Series A Bonds at a rate of approximately 3.224% per annum, although the City bears basis risk, which may be positive or negative, between the rate received on the 2006 Series A Swap Transaction and the rate paid on the 2006 Series A Bonds, which could result in a realized rate over time that may be lower or higher than the 3.224% rate payable by the City under the 2006 Series A Swap Transaction. The City has designated the 2006 Series A Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution. On August 2, 2012, \$25,930,000 of the 2006 Series A Bonds (such portion of the 2006 Series A Bonds is referred to herein the "Refunded Tax-Exempt 2006 Bonds") were redeemed with proceeds from the issuance of the 2012 Series B Bonds. The City left that portion of the 2006 Series A Swap Transaction allocable to the Refunded Tax-Exempt 2006 Bonds outstanding following the issuance of the 2012 Series B Bonds, as a partial hedge against the interest rates to be borne by the 2012 Series B Bonds, although such portion of the 2006 Series A Swap Transaction does not specifically match, in terms of its notional amount and amortization, the 2012 Series B Bonds.

(6) The City has entered into a floating-to-fixed rate interest rate swap transaction (the "2007 Series A Swap Transaction") with respect to the Variable Rate Utilities System Revenue Bonds, 2007 Series A (the "2007 Series A Bonds"). The counterparty to the 2007 Series A Swap Transaction currently has a counterparty risk rating of "Aa2" from Moody's and a financial program rating of "AA-" from S&P. The term of the 2007 Series A Swap Transaction is identical to the term of the 2007 Series A Bonds, and the notional amount of the 2007 Series A Swap Transaction will amortize at the same times and in the same amounts as the 2007 Series A Bonds. The 2007 Series A Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the 2007 Series A Swap Transaction, the City will pay to

the counterparty a fixed rate of 3.944% per annum and will receive from the counterparty a rate equal to the SIFMA Municipal Swap Index (formerly known as the BMA Municipal Swap Index). The effect of the 2007 Series A Swap Transaction is to synthetically fix the interest rate on the 2007 Series A Bonds at a rate of approximately 3.944% per annum. The City has designated the 2007 Series A Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution.

- (7) The City has entered into two floating-to-fixed rate interest rate swap transactions (the "2008 Series B Swap Transactions") with respect to the Variable Rate Utilities System Revenue Bonds, 2008 Series B (the "2008 Series B Bonds"). The counterparties to the 2008 Series B Swap Transactions currently have a counterparty risk rating of "Aa3" from Moody's and a financial program rating of "A+" from S&P, and a counterparty risk rating of "Aa3" from Moody's and a financial program rating of "A+" from S&P, respectively. The terms of the 2008 Series B Swap Transactions are identical to the term of the 2008 Series B Bonds, and the notional amount of the 2008 Series B Swap Transactions will amortize at the same times and in the same amounts as the 2008 Series B Bonds. The 2008 Series B Swap Transactions are subject to termination by the City or the counterparties at certain times and under certain conditions. During the terms of the 2008 Series B Swap Transactions, the City will pay to the counterparties a fixed rate of 4.229% per annum and will receive from the counterparties a rate equal to the SIFMA Municipal Swap Index (formerly known as the BMA Municipal Swap Index). The effect of the 2008 Series B Swap Transactions is to synthetically fix the interest rate on the 2008 Series B Bonds at a rate of approximately 4.229% per annum. The City has designated each of the 2008 Series B Swap Transactions as a "Qualified Hedging Transaction" within the meaning of the Resolution.
- (8) The interest rates on the 2012 Series B Bonds are hedged, in part, by the 2005 Series C Swap Transaction and the 2006 Series A Swap Transaction. See notes (3) and (4) above.
- (9) The City has entered into a cancellable floating-to-fixed rate interest rate swap transaction (the "2017 Series B Swap Transaction") with respect to the 2017 Series B Bonds. The two counterparties for this swap transaction are Citigroup, N.A. and Goldman Sachs Bank USA. In the aggregate, terms of the 2017 Series B Swap Transactions are identical to the term of the 2017 Series B Bonds, and the notional amounts of the 2017 Series B Swap Transactions will amortize at the same times and in the same amounts as the 2017 Series B Bonds. Where Goldman Sachs Bank, USA is the counterparty, during the term of this 2017 Series B Swap Transaction, the City will pay a fixed rate per annum of 2.119% and GRU will receive from the counterparty a rate equal to 70% of 1 month LIBOR. The current notional amount with respect to Goldman Sachs Bank, USA is \$105,000,000. Where Citibank N.A. is the counterparty, during the term of this 2017 Series B Swap Transaction, the City will pay to Citibank, N.A., a fixed rate per annum of 2.11% and GRU will receive from the counterparty a rate equal to 70% of 1 month LIBOR. The effect of the 2017 Series B Swap Transaction is to synthetically fix the interest rate on the 2017 Series B Bonds.
- (10) 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 Notes. The counterparty to the Series C CP Notes Swap Transaction currently has a counterparty risk rating of "A" from Fitch Ratings, Inc. ("Fitch"), "Baa1" from Moody's and "BBB+" from S&P. The term of the Series C Notes Swap Transaction is identical to the expected final maturity date of the Series C 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 Notes related to the swap are expected to be amortized. The Series C Notes Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the Series C CP Notes Swap Transaction, the City will pay to the counterparty a fixed rate of 4.10% per annum and will receive from the counterparty a rate equal to the SIFMA Municipal Swap Index (formerly known

as the BMA Municipal Swap Index). The effect of the Series C CP Notes Swap Transaction is to synthetically fix the interest rate on a portion of the Series C Notes at a rate of approximately 4.10% per annum. The City has not designated the Series C Notes Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution. All amounts owed by the City under the Series C CP Notes Swap Transaction are payable from amounts remaining on deposit in the Revenue Fund established pursuant to the Resolution following the payment of, among other things, Operation and Maintenance Expenses, debt service on the Bonds, debt service on Subordinated Indebtedness and required deposits to the Utilities Plant Improvement Fund established pursuant to the Resolution.

- (11) The Series C Notes will mature no more than 270 days from their date of issuance, but in no event later than October 5, 2022.
- (12) Does not include the issuance of an additional \$40,000,000 in aggregate principal amount of Series C Notes to finance a portion of the Cost of Acquisition and Construction of the System.
- (13) The Series D CP Notes will mature no more than 270 days from their date of issuance, but in no event later than June 14, 2030.
- (14) Does not include the SunTrust Loan. See "THE CP NOTES – Authority for Issuance" above for more information.

## **THE CITY**

### **General**

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

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

### **Government**

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

The following are the current members of the City Commission:

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

## THE SYSTEM

### General

Under its home rule powers and pursuant to the Charter, the City owns and operates the System, which provides the City and certain unincorporated areas of the County with electric, natural gas, water, wastewater, and telecommunications service (including certain utility services to the University of Florida). The System provides wholesale wastewater service to the City of Waldo. Natural gas service is also provided to retail customers within the corporate limits of the City of Alachua, Florida ("Alachua"), and the City of High Springs, Florida ("High Springs"). All facilities of the System are owned and operated by the City. The System is governed by the City Commission.

The electric system was established in 1912 to provide street lighting and electric service to the downtown area. Continuous expansion of the electric system and its generating capacity has resulted in the electric system serving an average of 96,272 customers (11,043 of which were commercial and industrial customers) in the fiscal year ended September 30, 2017, and having a maximum net summer generating capacity of 626 MW.

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 72,136 and 65,591 customers, respectively, in the fiscal year ended September 30, 2017. The water system has a nominal capacity of 54 million gallons per day ("Mgd") and the wastewater system has a treatment capacity of 22.4 Mgd annual average daily flow ("AADF").

The natural gas system was acquired from the Gainesville Gas Company in 1990 to provide gas distribution throughout the City. The gas system served an average of 34,942 customers in the fiscal year ended September 30, 2017.

The telecommunications system, GRUCom, was established in 1995 to provide communication services to the Gainesville area in a manner that would minimize duplication of facilities, maximize interconnectivity, simplify access, and promote the evolution of new technologies and business opportunities. GRUCom operates a state-of-the-art fiber optic network and current product lines include telecommunications transport services, Internet access services, communication tower antenna space leasing services, and public safety radio services. GRUCom served an average of 6,564 internet access customer connections and 173 dial-up customers in the fiscal year ended September 30, 2017.

### Utility Advisory Board

On November 19, 2015 the City Commission enacted Ordinance No. 140384 which created a new utility advisory board (the "Utility Advisory Board") to advise and make recommendations to the City Commission on all aspects of governance of the System's electric, gas, telecommunications, water and wastewater utilities. The Utility Advisory Board is comprised of seven members appointed by the City Commission, all of whom reside within the System's service area and receive utility service from GRU. The Utility Advisory Board serves as an advisor to the City Commission on all policy and governance decisions to be made by the City Commission regarding utility services; serves as a channel of communications between the City Commission, utility staff and the utility customers; and considers and makes recommendations regarding proposed changes in fees, rates, or charges for utility services. The Utility Advisory Board has no rate setting authority. However, since July 18, 2017, the City Commission and Utility Advisory Board have been holding joint meetings to study and evaluate whether to vest the Board with some level of final decision-making authority. Any such changes in decision-making authority with respect to utility matters would require revisions to the City Code of Ordinances and may, depending on the extent of the changes, require revisions to the City Charter.

### Legislative Matters Affecting the City

On February 9, 2017, State Representative Chuck Clemons, Sr. filed House Bill 759 which would change the governance of the City's utilities. The bill generally proposes a voter referendum to amend the City's Charter by creating a utility authority that is a unit of the City, with a non-salaried five member board appointed by the City Commission. The utility authority board would replace the City Commission as the governing body vested with final decision making authority over certain utility matters including, but not limited to, the authority to employ a utilities manager, set rates, and reduce over time the percentage of revenue (up to 3% each year) that is transferred from the System to the City's General Fund.

House Bill 759 was approved by both the House and Senate and was signed into law by the Governor on June 6, 2017. The referendum is scheduled for November 2018. The City is unable to predict whether or not such referendum will be approved.

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

### Management of the System

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

*Mr. Edward J. Bielarski, Jr., General Manager for Utilities*, joined the System as a Charter Officer and General Manager in June of 2015. Mr. Bielarski has over 20 years of experience in the utility industry, having worked with Constellation Energy Group (Maryland) as a Project General Manager and a Project Chief Financial Officer, and Lehigh County Authority (Pennsylvania) as a Chief Operating Officer and

Chief Financial Officer. As a Charter Officer, he reports directly to the seven-member City Commission and to the Utilities Advisory Board. Mr. Bielarski currently serves on the Board of Directors for The Energy Authority, Inc. ("TEA") and the Florida Reliability Coordinating Council (the "FRCC"). In his role as General Manager, Mr. Bielarski oversees all operations of the combined electric, natural gas, water, wastewater and telecommunications utilities. Principal responsibilities include management for all planning, administration, customer service, engineering, organizational development, construction and operations for all utility responsibility areas in accordance with City policies. Additionally, he oversees the preparation and administration of the annual budget and is responsible for policy development and the implementation of policies adopted by the City Commission.

*Ms. Claudia Rasnick, Interim Chief Financial Officer, [bio will be included here]*

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

*Mr. Dino De Leo, Energy Supply Officer,* joined the System in September 2006 and formerly served as Production Assurance Support Director. Mr. De Leo was appointed interim Energy Supply Officer in February 2016 and was made permanent in January 2017. Mr. De Leo has worked as an executive in the energy industry for over 36 years and, prior to joining GRU, served in various leadership roles in the US Navy Submarine force where he retired after 26 years of service in 2006. He holds a Bachelor of Science in Nuclear Engineering from the University of Florida, a Bachelor of Science in Business Administration degree from Columbia College and a Master of Business Administration from Brenau University. Mr. De Leo is responsible for planning, directing, coordinating and administering all activities and personnel for the System's Energy Supply Department including the System's power generation functions, a power engineering group, and a fuels management group, and oversees the design, construction, operation, and maintenance of related systems, projects, and contracts. He also assists with risk management oversight on an executive team and acts as the System's Energy Supply Department's liaison with local, state, and federal agencies.

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

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

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

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

*Cheryl McBride, Chief People Officer*, is GRU's chief liaison with the City, and the primary contact for GRU's personnel matters. Prior to joining GRU, Ms. McBride worked in the City's Human Resources Department for 10 years, serving as the H. R. Director for the past three years. Ms. McBride has also worked in human resources at Walt Disney World, Sprint, and Harris Corporation; however, her first job out of high school was with GRU. She later went on to earn her degree in business administration from the University of Florida.

*Michelle Smith Lambert, Acting Chief Change Officer*, has practiced law in the City for more than a decade. Founder of Balanced Life Wellness Consulting, she holds a Juris Doctorate degree and a Master of Exercise and Sports Science degree from the University of Florida.

*Walter Banks, Chief Information Officer*, has been planning, implementing and leading information technology solutions for public organizations for nearly 20 years. He most recently served as Director of Information Technologies for Frederick County, Virginia, following more than a decade managing the IT needs of school districts in central New Jersey and eastern Pennsylvania.

*Keino Young, Esq., Utilities Attorney*, has been with the City since April, 2017. The Utilities Attorney works under the direction and supervision of the City Attorney.

*Nicolle M. Shalley, Esq., City Attorney*, has been with the City Attorney's Office since 2006 and has been the City Attorney and supervisor of the Utilities Attorney since October 2012.

#### Labor Relations

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

The City has historically maintained good labor relations with respect to the System. Approximately 560 of the System's employees are represented by Local No. 3170 of the Communications Workers of America (the "CWA"). The current agreements with the CWA (Non-Supervisory and Supervisory), expires on December 31, 2018.

#### Permits, Licenses and Approvals

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

### **The Electric System**

#### Service Area

The System provides retail electric service to customers in the Gainesville urban area, which includes the City and a portion of the surrounding unincorporated area. Wholesale electric services are currently provided to Alachua and the City of Winter Park, Florida ("Winter Park"). See "-- Energy Sales – Retail and Wholesale Energy 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 Energy Florida ("Duke"). Electric service is also provided in the unincorporated areas of the County by Duke, Clay Electric Cooperative ("Clay"), Florida Power & Light Company ("FPL"), and Central Florida Electric Cooperative, Inc. The System has a territorial agreement with Clay which establishes a service boundary between the two utilities in the unincorporated areas of the County in order to clearly delineate, for existing and future service, those areas to be served by the System and those areas to be served by Clay. This agreement has been approved by the Florida Public Service Commission (the "FPSC") through 2017 and is currently in negotiations for further extension.

#### Customers

The System has experienced modest growth in customers averaging 0.81% per year since 2013. The following tabulation shows the average number of electric customers for the fiscal years ended September 30, 2013, through and including September 30, 2017.

	Fiscal Years ended September 30,				
	2013	2014	2015	2016	2017
Retail Customers (Average):					
Residential	82,440	83,117	83,796	84,069	85,229
Commercial and Industrial	10,467	10,602	10,677	10,726	11,043
Total	92,907	93,719	94,473	94,795	96,272

Of the 96,272 customers in the fiscal year ended September 30, 2017, 11,043 commercial and industrial customers provided approximately 59% of revenues from retail energy sales.

### Energy Sales

#### *The Energy Authority*

TEA is a Georgia nonprofit corporation founded by publicly-owned utilities in 1997 to maximize the value of their generation and energy resources in a competitive wholesale market. The System became an equity member of TEA on May 1, 2000. Other equity members include City Utilities of Springfield, Missouri, Cowlitz County Public Utility District, JEA (Jacksonville), the Municipal Electric Authority of Georgia ("MEAG Power"), Nebraska Public Power District, South Carolina Public Service Authority, and American Municipal Power. TEA has offices in Jacksonville, Florida and Seattle, Washington and provides power marketing, trading, and risk management services throughout most of the United States.

TEA currently works with over 50 public power clients that represent 24,000 MW of peak demand and 30,000 MW of installed generation capacity across the U.S. TEA manages a diverse generation portfolio that has proven advantageous in terms of market presence. Operations include the purchase and sale of power, transmission capacity acquisition and scheduling, natural gas and oil purchase and transportation, and financial trading and hedging under strictly observed risk policies.

Other than for retail load and applicable pre-existing bi-lateral long-term wholesale power agreements, TEA markets the System's generating resources in real-time, day-ahead, and longer-term power markets up to twelve months ahead. TEA also purchases all of the System's natural gas and optimizes the System's gas transportation entitlements. TEA's ability to execute energy transactions on behalf of the System includes arranging for any transmission services required to accommodate such transactions. Each transaction is accomplished through the execution of a letter of commitment between the System and TEA for a specific capacity amount and duration, and with negotiated terms and prices. Examples of these power sales include short-term, emergency and economy sales, ranging from a period of months to a single hour. TEA also executes and manages financial hedges for its members, primarily in the form of NYMEX natural gas futures and options. TEA constantly monitors the credit of counterparties and manages credit security requirements on behalf of the System as well as other TEA members.

TEA settles the transactions it makes for its members under terms set forth in settlement procedures adopted by its Board of Directors. The excess (or deficiency) of TEA's revenues over (or under) its costs are also allocated among its members pursuant to such procedures.

The System provides guarantees to TEA and to TEA's banks to secure letters of credit issued by the banks to cover purchase and sale contracts for electric energy, natural gas and related transmission.

In accordance with the membership agreement between the System and its joint venture members and with the executed guaranties delivered to TEA and to TEA's banks, the System's aggregate obligation for electric energy marketing transactions entered into by TEA on behalf of its members was \$9.6 million as of each of September 30, 2017 and September 30, 2016. The System's aggregate obligation for TEA's natural gas marketing transactions, under similar agreements and executed guaranties as of September 30, 2017 and 2016, was \$9.9 million and \$13.5 million, respectively.

For a discussion of the System's investment in TEA and its commitments to TEA as of September 30, 2017 and 2016, see Note 3 to the audited financial statements of the System "Investment in The Energy Authority" referenced in APPENDIX B-1 attached hereto. See also "-- Energy Supply System – Fuel Supply – Natural Gas" below for additional discussion of TEA's role in supplying natural gas for the System.

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

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

The analysis of the benefits showed the ability to reduce JEA's production cost by running their fleet at a point of better thermal efficiency when serving part of the GRU demand. GRU's savings were the result of serving load with lower-cost power generated by JEA, rather than from its own fleet. The agreement was signed in March 2016 and coordinated dispatch began in May 2016. As of February 2018, GRU has realized approximately \$2.3 million in savings as a result of the agreement.

#### Retail and Wholesale Energy Sales

In the fiscal year ended September 30, 2017, the System sold **[2,018,118]** megawatt hours ("MWh") of electric energy to its retail and firm wholesale customers (excluding interchange and economy sales). The System currently has a firm "all requirements" wholesale sales contract with Alachua. This contract, which originated in 1988, was renewed April 1, 2016 for a term of seven years. "All requirements" services include control area voltage and frequency regulation and all other ancillary services. The following table shows the System's sales in MWh and average use of electricity, in kilowatt hours ("kWh") by customer class, for the fiscal years ended September 30, 2013 through September 30, 2017. Year-to-year variability is due primarily to the effects of weather on heating and cooling loads. For the fiscal year ended September 30, 2017, there was a 1.95% decrease in residential MWh sales from the prior year.

The contract with Alachua includes management of Alachua's 0.019% share of the St. Lucie Unit project, as well as, compliance responsibilities of the North American Electric Reliability Corporation, Inc. ("NERC"). During the fiscal year ended September 30, 2017, the System sold **[133,040]** MWh to Alachua

and received [**\$8,632,823**] in revenue from those sales, which represented approximately [**6.6%**] of total energy sales (excluding interchange sales) and [**3.2%**] of total sales revenues.

**Retail and Wholesale Energy Sales**

	Fiscal Years ended September 30,				
	2013	2014	2015	2016	2017
Energy Sales–MWh:					
Residential	752,131	771,884	792,704	819,431	796,851
General Service, Large					
Power and Other	937,112	941,578	951,412	977,797	963,123
Firm Wholesale <sup>(1)</sup>	130,990	119,447	190,103	220,890	218,732
Total	1,820,233	1,832,909	1,934,219	2,018,118	1,978,706
Average Annual Use per Customer–kWh:					
Residential	9,123	9,287	9,460	9,747	9,350
General Service, Large					
Power and Other	89,530	88,811	89,109	91,161	87,216

<sup>(1)</sup> Sales to the City of Winter Park began January 2015.

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

Interchange and Economy Wholesale Sales

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

**Net Revenues from Interchange and Economy Wholesale Sales<sup>(1)</sup>**  
**(Fiscal Years ended September 30)**  
**(dollars in thousands)**

	2013	2014	2015	2016	2017
Net Revenues (Loss)	\$123	\$673	\$369	\$126	\$3,064
Percent of Total Electric System Net Revenues	0.1%	0.9 %	0.5%	0.2%	3.73%

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

### Interchange and Economy Wholesale Purchases

Interchange and economy wholesale purchases made when power is available from the market at prices below the System's production costs are among the factors that allow the System to assure competitive power costs for retail and firm wholesale customers. Purchases for a duration of less than 24 months are made through TEA. Longer-term contracts are negotiated by the System's staff. The benefits of the System's purchases are passed on to retail and firm wholesale customers by affecting the fuel and purchased power adjustment portion of their rates (see "-- Rates – Electric System" below). In the fiscal year ended September 30, 2017, [21%] of power for retail and wholesale sales was obtained through non-firm off-system purchases, allowing customers to benefit from less expensive gas-fired power available for purchase from the market.

### Renewable Energy

On November 8<sup>th</sup>, 2017 Gainesville Regional Utility purchased a biomass plant, formerly known as Gainesville Renewable Energy Center ("GREC"). Upon acquisition of the facility the plant was renamed Deerhaven Renewable ("DHR"). With the reductions in the cost of natural gas, a slower growth in load than forecasted, an evolving legislative and regulatory environment, and energy efficiency increases, among other factors, the need for energy from the DHR had become less economical. Upon acquisition of DHR the restriction imposed by the previous Power Purchase Agreement (PPA) were no longer applicable, as such we were able to operate the plant with greater flexibility, and with more economical biomass fuel than under the PPA. These 2 factors as well as unit tuning and optimization have made DHR more economical. GRU continues to consider the DHR Biomass Plant to be a useful long-term strategic energy resource, and expects it will continue to play an integral part in its long-term strategy to hedge against any potential future carbon tax and trade programs. .

Since 2006, renewable energy and carbon management strategies became a major component of the System's long-term power supply acquisition program. These renewable resources include the purchase of energy generated by landfill gas emissions, bio-mass and solar. The System instituted the nation's first European-style solar feed-in-tariff ("FIT") (discussed below) to be offered by a utility. The System's renewable energy portfolio is part of a long-term strategy to hedge against potential future carbon tax and trade programs. See "-- Future Power Supply" below for more information on the System's renewable energy resources. See also "-- Factors Affecting the Utility Industry - Air Emissions - *The Clean Air Act*" below concerning the cap and trade program under which utilities have several options for complying with the emissions cap, including installation of emission controls, purchasing allowances or switching fuels.

### Energy Supply System

#### Generating Facilities

The DHR Biomass Plant is an approximately 102.5 MW net (116 MW gross) wood biomass-fired facility. The GREC Biomass Plant is located on a 131-acre site approximately 10 miles northwest of the City within Alachua County, adjacent to GRU's current Deerhaven electric generation facilities. The DHR Biomass Plant uses advanced combustion technology in which biomass materials are burned in a fluidized bed boiler under controlled, low emissions conditions to generate steam, which in turn drives a turbine/generator that converts the power into electricity. The DHR Biomass Plant is more particularly

described below in "THE SYSTEM – The Electric System – Energy Supply System –Deerhaven Renewable."

The System owns generating facilities having a net summer continuous capability of 626MW of net dispatchable summer continuous capacity. The System also is entitled to the capacity and non-dispatchable energy from a landfill gas to energy plant of approximately 3.0 MW. These facilities are connected to the Florida Grid and to the System's service territory over 138 kilovolt ("kV") and 230 kV transmission facilities that include three interconnections with Duke and one interconnection with FPL.

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

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The Generating Facilities are set forth in the following table and described herein.

Existing Generating Facilities		Fuels		Net Summer Capability (MW)
Plant Name	Unit No.	Primary	Alternative	
<u>JRK Station</u>				
	Steam Unit 8	Waste Heat	—	36
	Combustion Turbine 4	Natural Gas	Distillate Fuel Oil	72
				<u>108</u>
<u>Deerhaven Generating Station</u>				
	Steam Unit 2	Bituminous Coal	—	228
	Steam Unit 1	Natural Gas	Residual Fuel Oil	75
	Combustion Turbine 3	Natural Gas	Distillate Fuel Oil	71
	Combustion Turbine 2	Natural Gas	Distillate Fuel Oil	17.5
	Combustion Turbine 1	Natural Gas	Distillate Fuel Oil	17.5
				<u>409</u>
<u>South Energy Center</u>				
	SEC-1	Natural Gas	—	3.5
	SEC-2	Natural Gas	—	6.9
				<u>10.4</u>
<u>Plant Entitlement</u>				
	DHR	Biomass	—	<u>102.5</u>
<u>Total Owned Resources</u>				
				629.9
<u>Baseline Landfill</u>				
		Landfill Gas	—	<u>3.7</u>
<b>Total Available Capacity</b>				<b>633.6</b>
Total Purchased Power				
Renewable Resources				106.2

**JRK Station** – The John R. Kelly Station (the "JRK Station") is located in downtown Gainesville. The JRK Station consists of one combined cycle combustion turbine ("CC1") unit with a net summer generation capability of 108 MW. CC1's primary fuel is natural gas and the alternate fuel is #2 oil. With current natural gas prices and unit efficiency, CC1 operates mostly as a baseload unit. .

**Deerhaven** – The Deerhaven Generating Station ("Deerhaven" or "DGS") is located approximately six miles northwest of the City and encompasses approximately 3,474 acres, which provides room for future expansion as well as a substantial natural buffer. The DGS consists of two steam turbines and three combustion turbines with a cumulative net summer capability of 409 MW. Unit 1 ("DH 1") is a conventional steam unit with a net summer capability of 75 MW. Its primary fuel is natural gas and its emergency backup fuel is #6 oil. DH 1 began commercial operation in 1972 and is expected to be retired in 2022. Unit 2 ("DH 2") is a coal-fired, conventional steam unit with a net summer capability of 228 MW.

Two combustion turbines are rated at 17.5 MW each and the third combustion turbine at 71 MW. All three combustion turbines have natural gas as their primary fuel and #2 oil as an alternate fuel.

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

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

To assure reliability, considerable investment continues to be made in both physical components and control systems. In addition, the System has invested in a full scale, high fidelity simulator for operator training and control logic quality control. During fiscal year 2017, the System spent approximately \$5.2 million on rebuild and upgrade to the Circulating Dry Scrubber ("CDS") that was installed in 2009 due to structural integrity issues. This environmental control equipment was replaced with upgraded structural support and a corrosion/erosion resistance liner that is made of C-276 alloy. The replacement and upgrades were completed before the summer peak season and will better ensure the long-term reliability of the environmental control equipment. GRU is currently coordinating with City of Gainesville Risk Management on an insurance claim related to the failure of the Deerhaven Unit #2 CDS. With intentions to recover the cost of the CDS decommissioning (approximately \$1.5 million), and the erection of vessel to the original design specifications (approximately \$4 million). In parallel, GRU is coordinating with outside counsel on possible litigation with the CDS Original Equipment Manufacturer (Babcock Power) related to the recovery of cost that may not be recovered by the City's insurance claim.

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

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

For further discussion regarding CR-3, see Note 5 to the audited financial statements of the System "Jointly Owned Electric Plant" referenced in APPENDIX B-1 attached hereto.

***South Energy Center*** – The South Energy Center was completed in 2 phases of construction and is a combined heat and power facility dedicated to serve a 1,000,000 square foot, 400-bed teaching hospital with Level I trauma center belonging to UF Health/Shands Teaching Hospital and Clinics ("UF Health") at the University of Florida. The South Energy Center provides for all of the hospital's energy needs for electricity, steam, and chilled water. The South Energy Center is also responsible for providing medical gas infrastructure.

The South Energy Center provides the hospital with a highly redundant electric microgrid that is capable of operating either grid-connected or grid-independent to meet 100% of the hospital's needs. The South Energy Center Phase 1 has two grid connections for normal power, and a 3.5 MW on-site combustion turbine to provide full standby power to the hospital and energy center, as well as a planned 2.25 MW fast-start diesel generator to provide code-compliant essential power for the hospital. The combustion turbine is installed in a combined-heat-and-power configuration and is typically run base-loaded to provide export power to the grid and steam to the hospital. All plant systems for electric, chilled water, and steam have high levels of equipment redundancy to minimize the potential of an outage. The South Energy Center Phase 2 has two grid connections for normal power, and both a 6.9 MW on-site reciprocating internal combustion engine to provide full standby power to two towers of the hospital and energy center, as well as a planned 3 MW fast-start diesel generator to provide code-compliant essential power for the hospital. The reciprocating internal combustion engine 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. During 2017, the South Energy Center provided 1.7% 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.

***Gainesville Renewable Energy Center*** –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. The DHR Biomass Plant began commercial operation on December 17, 2013 ("COD"). The DHR Biomass Plant is equipped with Best Available Control Technology ("BACT") air emission controls including; dry sorbent injection, selective catalytic reduction of NO<sub>x</sub> and fabric filters for particulate control. The type of fuel to be employed makes it

unnecessary to control SO<sub>2</sub> or mercury. The DHR Biomass Plant received its Title V Operating Air Emissions Permit effective January 1, 2015, which was transferred to GRU in November 2017, and must be renewed every five years. .

Upon the city acquiring the DHR Biomass Plant in November of 2017 considerable effort has been spent in optimizing the plant. The plant currently has the ability to operate between a range of 35-102.5 MW, with no restrictions. As such the DHR Biomass Plant is now more economical to be used for dispatch than under the previous Power Purchase Agreement ("PPA") with GREC LLC.

#### Strategic Advantages

The acquisition of the DHR Biomass Plant offered several strategic advantages that were in the best financial interests of GRU and its ratepayers:

1. Termination of the PPA (see "—Benefits of Terminating the Power Purchase Agreement" below for a description of resulting operational flexibility);
2. An immediate reduction of operating costs and an immediate one-time reduction of electric rates of approximately 8% addressing the City's policy for rate competitiveness (GRU anticipates subsequent annual 2-3% rate increases over the next five years);
3. The realization of future annual cash flow savings from the elimination of the minimum annual fixed payments under the PPA, compared to the estimated annual debt service on the Utilities System Revenue Bonds, 2017 Series A, Variable Rate Utilities System Revenue Bonds, 2017 Series B and Variable Rate Utilities System Revenue Bonds, 2017 Series C;
4. The flexibility to operate the DHR Biomass Plant as a strategic reliability hedge, based on the market cost of power, cost of fuel, and operating and maintenance requirements of the DHR Biomass Plant;
5. A reduction of long-term contractual capitalized obligations on GRU's balance sheet of approximately \$1 billion in exchange for adding \$680,920,000 of long-term debt; and
6. The final resolution of all on-going arbitration between the City and GREC LLC.

#### Operational Flexibility

Termination of the PPA in connection with the acquisition of the GREC Biomass Plant offered operational flexibility that was in the best financial interests of GRU and its ratepayers, including:

1. GRU no longer has to coordinate for the planned dispatch of the DHR Biomass Plant as was mandated by the PPA. Rather, GRU can optimize the mix of generating resources and market purchases to meet the necessary demand in the most cost-effective manner.
2. Prior to the termination of the PPA, GRU was required to dispatch the plant at 70 MWs, which is a large percentage of GRU's overall load and has proven difficult to manage across the generation fleet. The larger block size of 70 MWs prevented the use of other GRU generating resources or market purchases that could provide energy at a savings compared to the energy from the DHR Biomass Plant. A smaller blocksize, such as 35 MWs or lower, allows GRU to better optimize its fleet to more economically meet the requisite demand with multiple generation resources fueled by less expensive coal, natural gas, biomass and market purchases.

3. Prior to the termination of the PPA, GRU could not schedule any shutdowns during the summer period. As a result, if the GREC Biomass Plant started the summer season, it had to remain "On" for the duration of the summer season. Terminating the PPA eliminated this operational inflexibility and financial burden. Additionally, GRU had the ability to manage the DHR Biomass Plant such that for certain periods of the year, if the DHR Biomass Plant was not expected to be operational, staffing levels can be significantly reduced for a period of time. The PPA required a full workforce complement whether the GREC Biomass Plant was operating or in stand-by mode.
4. The DHR Biomass Plant is adjacent to GRU's current Deerhaven facilities. While staffing decisions are still to be determined, it is likely that cost-effective synergies can be achieved through more thoughtful and integrated staffing, maintenance and operations of the plants, taking advantage of economies of scale and scope.
5. Prior to the termination of the PPA, GREC LLC managed the fuel procurement process with its staff. GRU believed those contracts can be better managed with staff of GRU while eliminating the "margin" that GREC LLC applied to fuel procurement. Additionally, the PPA required a minimum fuel inventory of 15 days. GRU can manage the fuel inventory more opportunistically.
6. The PPA treated the property taxes on the GREC Biomass Plant as a reimbursable expense. Termination of the PPA and GRU's ownership eliminated the direct payment of property taxes.
7. GRU control of the DHR Biomass Plant's dispatch and the expected reduction in the 70 MW block size enables GRU to make more cost-effective market purchases of energy when market prices are below GRU's cost of delivering energy.

***Baseline Landfill*** – The System entered into a fifteen-year contract for the entire output (3.68 MW) of electricity generated from landfill gas derived from the Baseline Landfill in Marion County, Florida, which was placed in service in December 2008. The Baseline Landfill is actively expanding and additional capacity is projected for the future. Power from the Baseline Landfill is wheeled to the System over Duke's transmission system.

#### *Fuel Supply*

The objectives of the System's fuel procurement and management strategy are: (1) diversification of fuel mix and fuel sources, (2) continuous improvement of delivered fuel cost through innovative contract procurement and the use of short-term suppliers, (3) optimization of the quality of fuel and market price to achieve environmental compliance in the most effective and competitive manner possible, (4) reduction in the impact of price volatility in fuel markets through physical and financial risk management of the fuel supply portfolio and (5) participation in joint procurement programs with other municipal systems to maximize the price benefits of volume purchasing. The flexibility afforded by these actions allows the System to take advantage of changes in relative fuel prices and strategically adjust its use of coal, natural gas or fuel oil to optimize its fuel costs. For fiscal year 2017, net energy for load ("NEL") was served as follows: coal 16.40%; biomass 15.00%; natural gas 66.00%; landfill gas 1.00%; solar 1.50%; oil 0.10%. The remainder of NEL was served by spot purchase power. The System, as both a buyer in the fuel markets and a producer of power, hedges risk and volatility by the use of futures and options. The System's hedging activities are primarily limited to natural gas futures and options. The System's exposure to financial market risk through hedging activity is limited by a written policy and procedure, oversight by a committee of senior division managers, financial control systems, and reporting systems to the General Manager for the System.

**Coal** – The System currently owns a fleet of 111 aluminum rapid-discharge rail cars that are in continuous operation between the Deerhaven Generating Station ("DGS") and the coal supply regions. Coal inventory at the DGS is maintained at approximately 40-50 day supply, based on projected burn, anticipated disruptions in coal supply or rail transportation, or short-term market pricing fluctuations. The System's coal procurement considers both short-term and long-term fuel supply agreements with reputable coal producers. This strategy allows the System to reduce supply risk, decrease price volatility, insulate customers from short-term price swings, and exert better control over the quality of coal delivered. The strategy also retains opportunities for cost savings through spot purchases, the ability to evaluate new coal sources through test burns, or to take advantage of a producer's excess coal production capacity. Typically, the System maintains 70-75% of its coal supply under one to three year term contracts and the remainder under short-term contracts of one year or less. The System currently has two active contracts for the supply of coal. The System has a long-term transportation contract for coal with CSX Transportation that expires in 2019. A consultant that specializes in fuel transportation and logistics has been retained to explore additional transport options and finalize the rail renegotiation strategy. Effective October 2014, the City Commission instituted a policy prohibiting the procurement of coal from mountain top removal (MTR) sources unless a 5% savings over non-MTR mined coal is achieved by doing so. This policy has not had a material impact on the System to date.

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

**Natural Gas** – Natural gas supply for both the electric system and the natural gas distribution system is transported to the System by Florida Gas Transmission ("FGT"). A portion of this gas is transported under long-term contracts for daily firm pipeline transport capacity. The contracts are priced under transportation tariffs filed with the Federal Energy Regulatory Commission ("FERC"). The System's natural gas supplies are transported from Gulf Coast producing regions in Texas, Louisiana, Mississippi and Alabama. Natural gas volumes greater than the System's firm transportation contract entitlements are supplied either through the use of excess delivered capacity from other suppliers on FGT or through interruptible transportation capacity, as arranged by TEA which has combined purchasing power to ensure capacity. For fiscal year 2017, the System consumed 10,555,946 million British thermal units ("MMBtu") of natural gas in electric generation and 1,940,697 MMBtu for the gas distribution system. The average cost of gas delivered to the System was \$3.70/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 and consultant International FCStone, are market participants that provide comprehensive energy trading, analysis, strategies and recommendations to the System's Risk Oversight Committee ("ROC"). TEA is responsible for the procurement of daily physical volumes and management of pipeline transportation entitlements, as well as the execution of financial hedging transactions on the System's behalf. ROC provides direction and oversight on hedging to TEA. See "Energy Sales – *The Energy Authority*" above.

**Oil** – At current and projected price levels, the System's oil capable units are not projected to operate on fuel oil except in emergency backup modes. For fiscal year 2017, fuel oil accounted for approximately 0.10% 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.

***DHR Biomass Plant Fuel Supply*** – The DHR Biomass Plant is fueled by local and clean wood waste. This wood fuel includes forestry residues (such as slash and cull trees, pre-commercial thinnings, and whole-tree chips), urban wood residue (such as wood and brush from clearing activities, tree trimmings from right-of-way maintenance), wood processing residue (such as round-offs, end cuts, saw dust, shavings, reject lumber) and other wood waste (such as unusable wood pallets, storm/infested woody debris). It does not use any wood from construction or demolition waste. Rather than importing more fossil fuels, the DHR Biomass Plant's wood fuel is local and is harvested within a 75 mile radius of the plant in north central Florida. DHR requires approximately seven hundred and fifty thousand green tons of fuel annually. Before DHR began taking wood deliveries, much of this forestry waste wood was open burned, releasing smoke, ash, and soot into the air. Instead of being burned in the open or left on the forest floor to decompose, this material is being used to create renewable energy.

#### Transmission System, Interconnections and Interchange Agreements

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

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

The System is a member of the Florida Reliability Coordinating Council (the "FRCC"), which is a not-for-profit company incorporated in the State of Florida. The purpose of the FRCC is to ensure and enhance the reliability and adequacy of bulk electricity supply in Florida. As a member of FRCC, the System participates in sharing reserves for reliability purposes with other generating utilities in Florida, resulting in a substantial reduction in the amount of reserves required for proper operation and reliability.

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

### Electrical Distribution

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

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

### Capital Improvement Program

The System's current five-year electric capital improvement program requires approximately \$400 million in capital expenditures between fiscal years ended September 30, 2018 through and including 2023 which includes the DHR Biomass Plant. 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 2018 budget process. See "--Funding the Capital Improvement Program - Additional Financing Requirements" below for more information regarding funding.

#### **Electric Capital Improvement Program**

	Fiscal Years ended September 30,					
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Total</u>
Generation and Control	\$11,073,913	\$9,320,426	\$6,191,721	\$4,715,249	\$5,794,981	\$37,096,291
Transmission and Distribution	16,156,908	16,840,426	29,434,143	32,630,854	13,349,919	108,412,250
Miscellaneous and Contingency	10,899,838	8,576,449	4,422,826	8,519,511	954,544	41,373,167
Total	\$38,130,659	\$34,737,301	\$40,048,690	\$45,865,614	\$28,099,444	\$186,881,708

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Loads and Resources

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

Fiscal Year	Net Summer System Capability (MW) <sup>(1)</sup>	Firm Interchange Sales (MW)	Peak Load (MW) <sup>(2)</sup>	Actual / Projected Planning Reserve Margin	
				MW	Percent
Historical					
2013	650	0	416	234	56%
2014	639	0	409	230	56%
2015	639	0	421	218	52%
2016	631	0	428	203	47%
2017	626	3	418	211	51%
Projected					
2018	627	0	444	183	41%
2019	627	0	438	189	43%
2020	627	0	441	186	42%
2021	627	0	445	182	41%
2022	627	0	444	183	42%

<sup>(1)</sup> Based upon summer ratings. A purchase of 50 MW of firm baseload capacity ended December 31, 2013. Imported firm capacity has been adjusted for losses in the table above. The DHR Biomass Plant is 102.5 MW and is included in projected values. Does not include Solar FIT.

<sup>(2)</sup> Summer peak forecast historically incorporated the System's aggressive conservation and Demand-Side Management ("DSM") plan. In 2014, conservation planning was reduced significantly, which lessened the impact on peak loads. The plan continues to include conservation incentive retail rates and distributed renewable resources as with fewer incentive and information programs related to appliance and end use efficiency. The summer peak forecast presented here also includes Alachua all-requirements wholesale contract which is given the same precedence as native load.

Mutual Aid Agreement for Extended Generation Outages

The System has entered into a mutual aid agreement for extended generation outages with six other consumer-owned generating utilities in north central Florida and Georgia. Participating with the System in this agreement are FMPA, JEA, Lakeland Electric, Orlando Utilities Commission, the City of Tallahassee, and MEAG Power. Participants have committed to provide replacement power in the event of a long-term (two to twelve month) outage of one of the baseload generating units designated under the agreement. Each utility will provide a pro-rata share of the replacement power and will be reimbursed at an indexed price of coal assuming a heat rate of 11,000 BTU/kWh and an indexed price for gas assuming a heat rate of 9,250 BTU/kWh. The System has designated 100 MW of the capacity of DH 2 and 100 MW of the capacity at JRK Station to be covered under the agreement. The current agreement was renewed for an additional 5-year term beginning October 1, 2017. To date, the System has provided aid under this agreement, but has never requested aid pursuant to this agreement.

## Future Power Supply

### General

While the System's existing generating units can maintain a 15% reserve margin through at least 2022, if all generating units are available, the reserve margin can fall from 40+% to a generation deficit with the loss of the System's largest unit, DH 2. As such, power supply planning must address this first contingency event. The reliability of the System's generating sources and the availability of purchased power have been such that the System has never had to declare a generation deficiency. The next scheduled retirement of a generating facility is DH 1 in 2022. Management's strategy to maintain competitive power costs is to maintain the System's status as a self-generating electric utility with a diverse fuel supply that is hedged with a renewable PPA portfolio and meets all environmental standards and expectations of the local community. The ability to be self-generating has proven itself to be a powerful hedge against market volatility while maximizing reliability for native load. Important aspects of this strategy are the management of potentially stranded costs, maintenance of adequate transmission capacity, use of financial as well as physical techniques to hedge fuel costs, and long-term management of pipeline and rail transportation contracts and capacity. Upon purchase of the GREC Biomass Plant, GRU will continue to have sufficient generating capacity and will not need to acquire any additional capacity resources for several years. However, GRU has found it to be in its best economic interests to manage its power needs through the generation of power with its existing facilities and to acquire/utilize purchased energy supply, if there is a cost benefit.

### The Planning Process

The primary factors currently affecting the utility industry include environmental regulations, restructuring of the wholesale energy markets, the formation of independent bulk power transmission systems, the formation of an Electric Reliability Organization ("ERO") under FERC jurisdiction, and the increasing strategic and price differences among various types of fuels. No state or federal legislation is pending or proposed at this time for retail competition in Florida. The purpose of the planning process is to develop a plan to best meet the System's obligation to the reliability and security of the bulk electric system ("BES") of the State of Florida and best serve the needs of the System's customers, the most significant of which being competitive pricing of services. The System's current coal transportation contract expires December 31, 2019. Although negotiation strategies and additional options are being explored, the as-delivered cost of coal is anticipated to significantly increase. The year 2020 characterizes a time frame and does not limit considerations of future events.

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

In the fall of 2016, GRU applied for a Point-to-Point Transmission Service Request ("TSR") with Duke Energy Florida ("DEF") and Florida Power & Light ("FPL") with the intent of obtaining worst-case costs and facility upgrades necessary to provide GRU with 340 MW of firm power service from either

provider. The amount of 340 MW was chosen as the "upper envelope" of import power needs in the event GRU retires all native generation with the exception of the DHR Biomass Plant. Based on the study results, DEF concluded that extensive projects work must be completed in the 10 year planning horizon and provided a non-binding estimate of \$400 million to mitigate impacts on the DEF system. FPL, based on its own TSR results, provided a non-binding estimate of \$75.5 million for its own required system upgrades and identified multiple third party impacts, confirming DEF's findings. Should GRU pursue large firm power purchases, third party impacts (such as the need to acquire right of way for transmission lines) shall be reassessed in a coordinated study with the FRCC TWG.

#### Solar FIT

The System became the first utility in the nation to adopt a European-style solar FIT in March 2009. The System purchases 100% of the electricity produced by a photovoltaic ("PV") solar system, which is delivered directly to the System's distribution system. What distinguishes a European-style FIT from any other FIT are the following three factors: (a) the price paid per kWh is designed to allow the owner/operator to earn a profit (the System applied a 5% internal rate of return after taxes to a reference system design); (b) the tariff is fixed over a sufficient period of time by a contract that is designed to promote investment (the System provides a twenty-year fixed price power purchase agreement); and (c) there are distinctions between different types of projects in terms of the price paid (in the case of the System, there are different rates for building/pavement mount and green field ground mount systems). FIT can be applied to any form of renewable energy, but the System chose to focus on solar. The System acquires all the environmental attributes of the solar energy purchased under the FIT, such as renewable energy credits and carbon offsets. The System stopped accepting new installations after 2013; however, approximately 23.3 MW of solar PV capacity was installed and continues to supply energy to the System.

#### Solar Net Metering

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

### **The Water System**

The water system currently includes 1,170 miles of water transmission and distribution lines throughout the Gainesville urban area, 16 water supply wells located in a protected well field, and one treatment plant (the "Murphree Plant") possessing a rated peak day capacity of 54 Mgd. Treatment processes include lime-softening, recarbonation, filtration, chlorination and fluoridation. The Murphree Plant's design allows for expansion to at least 60 Mgd of capacity at the plant site without interruption of treatment or service. The System renewed its consumptive use permit ("CUP") in September 2014 which will expire on September 10, 2034. The water system also includes a total of 19.5 million gallons of water storage capacity, comprised of pumped ground storage and elevated tanks.

#### Service Area

The water system serves customers within the City limits and in the immediate surrounding unincorporated area. Comprehensive land use plans for the Gainesville urban area mandate connection

of new construction to the water system for all but very low density residential developments. Much of the water system's growth is in areas served by Clay for electricity or redevelopment of areas with higher density development. The area presently served includes approximately 118 square miles and approximately 75% of the County's total population. The University of Florida and a small residential development in Alachua are the only wholesale water sales customers.

### Customers

The System has experienced average customer growth of 0.8% per year over the last five years. The System has extension policies and connection fees for providing water supply services to new developments appropriately designed to assure that new customers do not impose rate pressure on existing customers. The following tabulation shows the average number of water customers for the fiscal years ended September 30, 2013 through and including 2017.

	Fiscal Years ended September 30,				
	2013	2014	2015	2016	2017
Customers (Average)	69,847	70,300	70,903	71,546	72,136

Most of the System's individual water customers are residential. Commercial and industrial customers comprised approximately 8.7% of the 72,136 average customers in the fiscal year ended September 30, 2017, and 62% of all water sales revenues were from residential customers.

### Water Treatment and Supply

The System's water supply is groundwater obtained from a well field tapping into a confined portion of the Floridan aquifer. Groundwater is treated at the Murphree Plant prior to distribution and eventual use. Water treatment and supply facilities are planned based on the need to provide reserve capacity under extreme conditions of extended drought, with attendant maximum demands for water and lowered aquifer water levels. Under these design conditions, current water treatment and supply facilities are adequate through at least 2034. No limitation of supply imposed by the aquifer's sustained yield has been identified by groundwater studies to date.

Water treatment at the Murphree Plant consists of softening to protect the distribution system and improve customer satisfaction, fluoridation for improved cavity protection in young children, filtration, and chlorination for protection from microbial contamination. Specific treatment processes include sulfide oxidation, lime softening, pH stabilization, filtration, fluoridation, and chlorination. Treated water is collected in a clearwell for transfer to ground storage reservoirs prior to distribution. The filter system has been upgraded with two additional filter cells to provide additional treatment capacity. The System has been upgrading plant components that are outdated or at or near the end of the operating lives in order to ensure the reliability and longevity of the plant. One such upgrade is replacing the electrical system at the water plant. This project will replace the original large electrical equipment, generator, conductors, and construct a new electrical building at the plant. The original equipment which was installed in 1974 has reached the end of its serviceable life and requires replacement to ensure the continued reliable operation of the Murphree Plant. The cost of the project is approximately \$11 million and is included in the System's 6 year capital budget.

Raw water requirements for the water system are supplied by sixteen deep wells drilled into the Floridan aquifer. Vertical turbine pumps raise the water and deliver it to the Murphree Plant for

treatment. In 2000, the System, along with the local water management districts, purchased a conservation easement over 7,000 acres of silvicultural property immediately to the north and northwest of the Murphree Plant. The conservation easement provides protection to the System's sixteen existing wells and will accommodate the construction of additional wells. Existing and future wells within the conservation easement are anticipated to yield a minimum of 60 Mgd of water supply to match the long-term future treatment capacity of the Murphree Plant site.

The System's groundwater withdrawals are permitted through the St. Johns River Water Management District ("SJRWMD") and Suwannee River Water Management District ("SRWMD"). The SJRWMD and the SRWMD have adopted a 20-year water supply plan through 2035. The intent of the water supply planning process is to ensure adequate water supply on a long-term basis while protecting natural resources. Computer groundwater modeling performed to date by the water management districts indicates that there may be future constraints on groundwater supplies. One of the regulatory constraints used by the water management districts and the Florida Department of Environmental Protection ("FDEP") to protect water bodies is the "minimum flows and levels" ("MFL") program. The water management districts and the FDEP have developed and are continuing to develop MFL for individual springs, lakes and rivers to ensure that they are not adversely impacted by groundwater withdrawals. The water management districts are developing refined groundwater models to better define and evaluate potential constraints for both water supply planning and the MFL program. The System is participating in both the model development and MFL development efforts. The System is required to comply with existing and future MFLs and with water supply plans which may result in increased costs to the System. The System will comply with its consumptive use permit and meet the System's future water supply needs primarily through a combination of increased water conservation efforts and an increased use of reclaimed water.

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

The EPA placed the site on the National Priorities List under the Superfund program in 1984 because of contaminated soil and groundwater resulting from facility operations. The EPA then issued a Record of Decision ("ROD") for the site in 1990 which described the plan for cleaning up the site. Actions were taken in the 1990's to contain and partially remove contamination at the site. The presence of protective geologic confining layers over the aquifer has greatly impeded the migration of contamination. However, additional investigations of the site since 2001, conducted at the urging of the System, the County and members of the community, have indicated that additional measures are needed to contain the contamination and clean up the site to ensure that the water supply is protected. Although the System is not a potentially responsible party ("PRP") for this site, it has been and intends to continue being highly proactive in protecting the City's water supply. The System has actively participated as a stakeholder working with the EPA and the PRPs for the site (Beazer East, Inc. and Cabot Corporation) to develop remediation plans. The System has assembled a team of experts in the groundwater contamination field to assist and advise the System, and to assist the System in interacting with the EPA and the PRPs to ensure that the appropriate steps are taken. The System regularly tests both the raw and finished water at the well field and there has been no trace of contamination. Based on the System's request, an extensive Floridan aquifer groundwater monitoring network has been constructed at the Koppers portion of the site and is routinely monitored.

In February 2011, the EPA issued a second ROD which described additional cleanup actions needed at the site. The ROD includes a multiple barrier approach for containing contamination at the Koppers portion of the site: (1) areas containing creosote will be treated with two different in situ treatment technologies to immobilize the creosote; (2) a slurry wall will be constructed around the most contaminated areas; and (3) contaminated groundwater from the Floridan aquifer below the site is being pumped and treated. The EPA and Beazer East, Inc., the PRP for the Koppers portion of the site, have entered into a consent decree which requires the PRP to implement the remediation described in the ROD. The consent decree has been approved by the federal district court. The consent decree has not had a material adverse effect on the System or its financial condition. Beazer is currently implementing the cleanup plan per the ROD and it is anticipated that the cleanup of the Koppers portion of the site will be completed by 2021. The System and its expert consultants are continuing to be highly engaged in the design and implementation of the cleanup site.

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

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

#### Transmission and Distribution

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

#### Capital Improvement Program

The System's current five-year water capital improvement program requires approximately \$63.3 million in capital expenditures for the fiscal years of September 30, 2018 through and including 2023. 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 2018 budget process. See "--Funding the Capital Improvement Program - Additional Financing Requirements" below for more information regarding funding.

## Water Capital Improvement Program

	Fiscal Years ended September 30,					<u>Total</u>
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	
Plant Improvements	\$9,256,879	\$5,820,698	\$2,051,367	\$3,206,379	\$2,689,503	\$23,024,826
Transmission and Distribution	3,500,838	4,113,215	3,092,360	7,056,662	6,924,218	24,687,293
Miscellaneous and Contingency	4,445,110	4,252,865	2,170,775	2,855,517	3,708,507	17,432,774
<b>Total</b>	<b>\$17,202,827</b>	<b>\$14,186,778</b>	<b>\$7,314,502</b>	<b>\$13,118,558</b>	<b>\$13,322,228</b>	<b>\$65,144,893</b>

### The Wastewater System

The wastewater system serves most of the Gainesville urban area and consists of 660 miles of gravity sewer collection system, 170 pump stations with 153 miles of associated force main, and two major wastewater treatment plants with a combined treatment capacity of 22.4 Mgd AADF.

All of the effluent from the plants is beneficially reused either for aquifer recharge through recharge wells or groundwater recharge systems, environmental restoration, irrigation, or industrial cooling. The System is continuing to expand its reuse systems at both of its treatment plants in order to conserve groundwater resources and provide additional effluent disposal capacity expansion.

#### Service Area

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

#### Customers

The System has experienced average customer growth of 0.96% per year over the last five years. The following tabulation shows the average number of wastewater customers, including reclaimed water customers, for the fiscal years ended September 30, 2013 through and including 2017.

	Fiscal Years ended September 30,				
	2013	2014	2015	2016	2017
Customers (Average)	63,001	63,501	64,121	64,781	65,591

The composition of the System's wastewater customers is predominantly residential. Commercial and industrial customers comprised approximately 6.7% of the 65,591 average customers in the fiscal year ended September 30, 2017, and residential customers were the source of 68% of all the wastewater system's revenues in the fiscal year ended September 30, 2017.

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. Waldo constructed a lift station and force main which collects Waldo's raw wastewater and discharges it to one of the System's existing lift stations. The facilities provide adequate capacity for Waldo to more than double its service population with future growth, which will in turn result in more revenue opportunities for the System.

### Treatment

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

The MSWRF has a treatment capacity of 7.5 Mgd AADF and was upgraded in 1992 to include advanced tertiary activated sludge treatment process units. The new facilities include effluent filtration, gravity belt sludge thickeners, and major improvements to plant headworks to control odors and improve plant reliability. Existing sludge treatment facilities are adequate to meet current federal sludge regulations. Effluent from the MSWRF is discharged to the Sweetwater Branch and must meet requirements of the FDEP for discharge to Class III surface waters. The MSWRF is in compliance with its National Pollutant Discharge Elimination System ("NPDES") permit. The MSWRF NPDES permit is a 5-year permit that expires March 18, 2020.

In addition, the MSWRF includes a reclaimed water pumping station and distribution system. The reclaimed water distribution system currently includes a pipeline, which provides reclaimed water to the South Energy Center where it is then used for process cooling and irrigation. See "- The Electric System – Energy Supply System – *Generating Facilities – South Energy Center*" above. This pipeline also provides reclaimed water for pond augmentation and irrigation at the Depot Park Project (MGP remediation site) (see "- The Natural Gas System – Manufactured Gas Plant" below) and at the System's Innovation Energy Center chilled water facility (see "- Management's Discussion of System Operations – Competition" herein). The pipeline will also provide reclaimed water for other irrigation and cooling uses that develop near the pipeline corridor.

The MSWRF East Train rehabilitation and headworks projects are scheduled to be completed in or before fiscal year 2022 at an estimated cost of \$13 million, and is part of the six-year capital improvements program. The east train is the oldest treatment train at the MSWRF, originally installed in the 1960's. The mechanical components in the east train have signs of deterioration and the aerators are nearly 40 years old. This rehabilitation project will replace the clarifier mechanism, electrical gears, control panels, PLC, aerators and rehabilitate the concrete basin structure. The existing headworks will remain operational until construction is completed and prepared for cutover. In addition, a transfer pump station will be constructed to assist in transferring wastewater flow between the two water reclamation facilities.

Under the FDEP Total Maximum Daily Load ("TMDL") regulations, FDEP assesses the water quality in water bodies and sets requirements for reduction in pollutant sources. FDEP adopted a TMDL in January 2006 which requires reductions in total nitrogen discharges from the MSWRF and other

nitrogen sources. Florida's TMDL regulations allow the FDEP to negotiate basin management plans involving all of the parties affecting the water bodies. Subsequent to the adoption of this TMDL, the FDEP promulgated its Numeric Nutrient Criteria ("NNC") Rule effective September 17, 2014. The System will achieve its TMDL limits and comply with the NNC Rule by implementing a cooperative environmental restoration project known as the Paynes Prairie Sheetflow Restoration project. The combination of the project and the reclaimed water distribution (described above) will allow the System to beneficially reuse 100% of the MSWRF effluent.

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

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

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

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

In the fiscal years ended September 30, 2017 and 2016, the System delivered approximately 2.9 Mgd AADF and 2.8 Mgd AADF, respectively, of reclaimed water. The regional water management districts encourage the use of reclaimed water to reduce demands on groundwater. The FDEP encourages reuse as an environmentally appropriate means of effluent disposal.

### Wastewater Collection

The wastewater gravity collection system consists of 15447 manholes with 660 miles of gravity sewer, 50% of which consists of vitrified clay pipe. New facilities are primarily constructed of PVC high density polyethylene ("HDPE") pipe. The System maintains three television sealing and inspection units which are routinely employed in inspecting new additions to the System to ensure they meet specifications of the System and in inspecting older lines. The television inspections allow the System to identify segments of piping which have high infiltration and inflow or structural concerns. These pipes are restored through a process known as slip-lining, in which a cured in place fiberglass sleeve is installed in the pipe. The System performs slip-lining using its own crews. In addition, the System routinely utilizes contractors to perform slip-lining of longer segments of piping. As a result of the use of slip-lining, infiltration and inflow to the System are not excessive.

The force main system which routes flow to the treatment plant consists of 170 pump stations and over 153 miles of pipe. Existing lines less than 12 inches in diameter are generally constructed of PVC pipe and existing lines 12 inches in diameter and over are generally constructed of ductile iron pipe. For new construction, force mains 16 inches and smaller are generally constructed of PVC or HDPE. The System has instituted a preventative maintenance program to assure long life and efficiency at all pumping stations.

### Capital Improvement Program

The System's current five-year wastewater capital improvement program requires approximately \$101.7 million in capital expenditures for the fiscal years ending September 30, 2018 through and including 2023. 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 2018 budget process. See "-- Funding the Capital Improvement Program - Additional Financing Requirements" below for more information regarding funding.

#### **Wastewater Capital Improvement Program**

	Fiscal Years ended September 30,					Total
	2018	2019	2020	2021	2022	
Plant Improvements	\$7,032,487	\$9,609,452	\$6,602,751	\$6,713,100	\$5,894,425	\$35,852,215
Reclaimed Water	1,166,552	860,065	726,134	260,703	331,561	3,345,015
Collection System	9,164,348	9,737,492	10,192,890	10,868,415	14,467,130	54,430,274
Miscellaneous and Contingency	5,366,142	5,315,593	2,699,641	3,551,353	4,621,598	21,554,328
Total	\$22,729,529	\$25,522,602	\$20,221,416	\$21,393,571	\$25,314,714	\$115,181,832

### **The Natural Gas System**

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

### Service Area

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

### Customers

The following tabulation shows the average number of natural gas customers for the fiscal years ended September 30, 2013 through and including 2017. The majority of new single family developments in the Gainesville urban area have been connected to the System over this period.

	Fiscal Years ended September 30,				
	2013	2014	2015	2016	2017
Customers (Average)	33,465	33,780	34,152	34,496	34,942

The composition of the System's natural gas customers is predominantly residential. Commercial and industrial customers comprised approximately [4.7%] of the 34,942 average customers served in the fiscal year ended September 30, 2017, while approximately [95.3%] were residential customers.

### Natural Gas Supply

Natural gas is procured and delivered in much the same manner as the System's electric generation operations. TEA purchases the commodity, optimizes pipeline capacity entitlements, and executes physical and financial hedging strategies on behalf of the System as it does for electric operations. The non-coincident occurrences of electric system and gas retail distribution ("LDC") system peak demands provide opportunities to switch electric fuels to free up pipeline capacity for the LDC and/or manage pipeline entitlements to enhance the reliability and cost performance of the gas system. The average cost of gas delivered to the System for the natural gas distribution system in the fiscal year ended September 30, 2017 was \$3.70/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 783 miles of gas distribution mains. The predominant and standard pipe materials in service are polyethylene (591 miles) and coated steel (186 miles). All coated steel pipelines are cathodically protected using magnesium anodes. The balance of the distribution system is comprised of uncoated steel and black plastic. The replacement of these two pipeline materials

has been programmed within the immediate planning/construction horizon and will be completed by the end of fiscal year 2019.

### Manufactured Gas Plant

The City'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 around 1960, coal residuals and spilt fuel contaminated soils at and adjacent to the manufactured gas plant ("MGP") site. When the natural gas system was purchased, the System assumed responsibility for the investigation and remediation of environmental impacts related to the operation of the former MGP. The System has pursued recovery for the MGP from past insurance policies and, **[to date, has recovered \$2.2 million from such policies]**. Site investigations on properties affected by MGP residuals have been completed and the System has completed limited removal actions. The System has received final approval of its proposed overall Remedial Action Plan which will entail the excavation and landfilling of impacted soils at a specially designed facility. This plan was implemented pursuant to a Brownfield Site Rehabilitation Agreement with the State. Following remediation, the property was redeveloped by the City as a park with stormwater ponds, nature trails, and recreational space, all of which were considered in the remediation plan's design. The duration of the groundwater monitoring program and that timeframe is open to the results of what the sampling data shows.

Based upon GRU's analysis of the cost to clean up this site, GRU has accrued a liability to reflect the costs associated with the cleanup effort. During fiscal years ended September 30, 2017 and 2016, expenditures which reduced the liability balance were approximately \$1.1 million and \$1.0 million, respectively. The reserve balance at September 30, 2017 and 2016 was approximately \$814,000 and \$629,000, respectively.

GRU is recovering the costs of this cleanup through customer charges. A regulatory asset was established for the recovery of remediation costs from customers. Through fiscal years ended September 30, 2017 and 2016, customer billings were \$1.1 million, consecutively and the regulatory asset balance was \$12 million and \$13 million, respectively.

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

### Capital Improvement Program

The System's current five-year natural gas capital improvement program requires approximately \$26.2 million in capital expenditures during the fiscal years ended September 30, 2018 through and including 2023. 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 2018 budget process. See "--Funding the Capital Improvement Program - Additional Financing Requirements" below for more information regarding funding.

## Gas Capital Improvement Program

	Fiscal Years ended September 30,					<u>Total</u>
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	
Distribution Mains	\$920,537	\$1,053,458	\$1,050,368	\$1,235,537	\$1,844,857	\$6,104,757
Meters, Services and Regulators	580,933	615,079	493,497	907,772	1,172,253	3,769,534
Miscellaneous and Contingency	1,392,727	1,379,207	847,336	1,122,255	1,470,120	6,211,645
<b>Total</b>	<b>\$2,894,197</b>	<b>\$3,047,744</b>	<b>\$2,391,201</b>	<b>\$3,265,564</b>	<b>\$4,487,230</b>	<b>\$16,085,936</b>

### GRUCom

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

#### Service Area

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

#### Services Provided

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

The telecommunications services provided by GRUCom are primarily Private Line and Special Access transport circuits (both described below) delivered in whole, or in part, on the GRUCom fiber optic network. These high bandwidth circuits are capable of carrying voice, data or video communications. Private Line circuits are point-to-point, unswitched channels connecting two or more customer locations with a dedicated communication path. Special Access circuits are also unswitched and provide a dedicated communication path, but these circuits connect a customer location to the Point of Presence of another telecommunications company. GRUCom transport services are provided at various levels ranging from 1.5 megabits per second ("Mbps") to 10 gigabit per second ("Gbps"). Part of GRUCom's business strategy is to use unbundled network elements from the incumbent local exchange carrier, AT&T, in anticipation of fiber extensions to specific service locations. GRUCom also uses the fiber optic network to provide high speed Internet access services. Business Internet and Dedicated Internet Access ("DIA") class service connections are offered at access speeds ranging from 10 Mbps up to 10 Gbps and bulk residential Internet access service is provided to participating MDU communities at

speeds up to 1 Gbps under the brand name GATOR NET. In 2017, GRUCom upgraded its bulk GATORNET services to deliver Symmetrical bandwidth, a first in the Gainesville area. GRUCom operates eleven communications towers in the Gainesville area and leases antenna space on these towers as well as on two of the System's water towers, for a total of thirteen antenna attachment sites. Two of the five transmitter sites for the countywide public safety radio system are also located on these communications towers. Wireless communications service providers lease space on the towers and, in most cases, also purchase fiber transport services from GRUCom to receive and deliver traffic at the towers. GRUCom provides transport services that carry a substantial portion of cell phone traffic in the Gainesville urban area. The GRUCom public safety radio system began operation in 2000. These services are provided over Federal Communications Commission ("FCC")-licensed 800 MHz frequencies, utilizing a trunked radio system that is compliant with the current frequency allocations enacted by the FCC in 2010 to accommodate personal communication services ("PCS") providers. The trunked radio system meets current industry standards for interagency operability. The trunked radio system consists of 22 trunked voice frequencies. Antenna sites are linked to the network controller and various dispatch centers utilizing GRUCom's transport services.

### Customers

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

GRUCom's fiber transport customers include other land-line telecommunications companies, cellular telecommunications companies, private commercial and industrial businesses, federal, state and local governmental agencies, public and private schools, public libraries, Santa Fe College, the University of Florida, UF Health and the University of Florida Health Science Center. As of September 30, 2017, GRUCom had a total of 547 transport circuits in service.

Internet access services are provided to other Internet service providers, local businesses, government agencies, and participating MDU housing communities. As of September 30, 2017, GRUCom had 6,287 Business Internet access customer connections and bulk residential Internet agreements with 31 MDU communities. GRUCom tower space leasing services are used primarily by wireless providers, which include cellular telephone and PCS companies. As of September 30, 2017, GRUCom executed 32 tower leases, for space on eleven of its thirteen antenna attachment sites with eight different lessees, including national and regional cellular service providers.

Public safety radio system customers consist solely of government entities due to restrictions on the use of the frequencies allocated to the System under licenses issued by the FCC. The primary radio system users include: the System, the Gainesville Police Department, the Gainesville Fire Rescue Department, the Gainesville Regional Transit System, the City's Public Works Department, the University of Florida Police Department, the Santa Fe College Police Department, the City of Alachua Police Department, the City of High Springs Police Department, the County's Sheriff's Office, the County's Fire Rescue Operations and the County's Public Works Departments. These users have entered into service agreements which are 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. As of September 30, 2017, the public safety radio system had 2,683 subscriber units in service.

**GRUCom Projected Revenue and Customer Count**

	2019	2020	2021	2022	2023	2024
Telecom and Data Service Sales	\$8,678,576	\$9,236,042	\$9,910,564	\$10,590,704	\$11,271,774	\$11,971,075
TRS Sales	1,736,814	1,718,776	1,700,924	1,683,258	1,665,776	1,648,475
Tower Leasing Sales	1,783,253	1,826,788	1,871,480	1,917,360	1,964,464	2,012,823
Non-Standard Sales (Non-Recurring)	35,000	35,000	35,000	35,000	35,000	35,000
Total Revenue	<u>\$12,233,643</u>	<u>\$12,816,606</u>	<u>\$13,517,968</u>	<u>\$14,226,322</u>	<u>\$14,937,014</u>	<u>\$15,667,373</u>
Projected Business Customer Count	277	328	429	528	627	726

Description of Facilities

As of September 30, 2017, GRUCom had 527 miles of fiber optic cable installed throughout Gainesville and the County. The fiber strand count included in the cable depends on service requirements for the particular area and ranges from 12 to 144 strands. The fiber is installed in a ringed topology consisting of a backbone loop and several subtending rings. Service is provisioned on the network in two ways: for services requiring transmission through Synchronous Optical Network standard protocol, GRUCom has deployed equipment manufactured by Ciena (primarily); and for services requiring transmission through Ethernet standard protocol, GRUCom uses equipment manufactured by Cisco and Telco System. GRUCom is in the process of retiring the Cisco Systems equipment and migrating all Ethernet to the Telco System's transmission platform. The Telco Systems equipment will enable GRUCom to provide multi-protocol line switching functionality and reduce network infrastructure equipment complexity. The Ethernet protocol provides GRUCom with increased flexibility for managing bandwidth delivered to the customer. The maximum transport speed currently utilized in the fiber optic network is 10 Gbps, which is enough bandwidth to deliver more than 125,000 simultaneous phone calls (as an illustration). Bandwidth on this network is a function of the electronic equipment utilized and, with technologies such as dense wave division multiplexing, expansion of the transport capability of the network is virtually unlimited. To exchange network traffic, GRUCom also is interconnected with other major telecommunications companies serving the Gainesville area.

The public radio system employs a Motorola 800 MHz simulcast system configured with six transmit and receive tower sites including 22 simulcast voice and two additional mutual aid channels. GRUCom has begun the process of migrating to the P25 protocol.

GRUCom maintains a point-of-presence at the Digital Realty Trust, Inc. collocation and interconnection facility located in Atlanta, Georgia (the "ATL1 data center"). The ATL1 data center provides access to hundreds of leading domestic and international carriers as well as physical connection points to the world's telecommunications networks and internet backbones. Atlanta, Georgia is a major fiber interconnection point from Florida to New York and the ATL1 data center sits on top of most of the fiber. GRUCom maintains an ultra-high bandwidth backbone transmission interconnection on diverse routes between Gainesville and the ATL1 data center to provide highly reliable Internet access to customers in Gainesville. GRUCom is also a member of the Digital Realty Internet Exchange (the "Internet Exchange"), a separate peering point in the ATL1 data center. The Internet Exchange 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. The Internet Exchange 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 Equinix, Inc. Network Access Point of the Americas ("NOTA") collocation and interconnection facility which is located in Miami, Florida. NOTA is one of the most significant telecommunications projects in the world. The Tier-IV facility was the first purpose-built, carrier-neutral Network Access Point and is the only facility of its kind specifically designed to link Latin America with the rest of the world. NOTA is located in downtown Miami in close proximity to numerous other telecommunications carrier facilities, fiber loops, international cable landings and multiple power grids. More than 160 global carriers exchange data at NOTA including seven Tier-1 world-wide Internet service providers. GRUCom maintains an ultra-high bandwidth backbone transmission interconnection between Gainesville and NOTA, separate from the ATL1 data center interconnection circuits, which allows GRUCom to maintain a second, fully diverse data gateway and exchange to further enhance the reliability of the Internet services provided to customers in Gainesville. In Miami, GRUCom is also connected to the FL-IX Peering facility to provide additional and duplicate peering points with various ISPs including Content Providers, Gaming Providers and enterprises similar to the Internet Exchange connection in Atlanta.

#### Capital Improvement Program

The System's current five-year GRUCom capital improvement program requires approximately \$19.5 million in capital expenditures for years ended September 30, 2018 through and including 2023. 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 2018 budget process. See "--Funding the Capital Improvement Program - Additional Financing Requirements" below for more information regarding funding.

#### **GRUCom Capital Improvement Program**

	Fiscal Years ended September 30,					Total
	2018	2019	2020	2021	2022	
GRUCom Systems	\$3,279,419	\$797,585	\$714,590	\$947,019	\$1,240,168	\$6,978,781
Special Project	429,294	362,140	-	-	-	791,434
General Plant	80,156	41,978	37,610	49,806	65,131	274,681
Miscellaneous and Contingency	253,919	303,872	271,991	359,868	471,085	1,660,735
<b>Total GRUCom</b>	<b>\$4,042,788</b>	<b>\$1,505,575</b>	<b>\$1,024,191</b>	<b>\$1,356,693</b>	<b>\$1,776,384</b>	<b>\$9,705,631</b>

#### **Rates**

##### General

In general, the rates of municipal electric utilities in Florida are established by the governing bodies of such utilities. The governing bodies of municipal water, wastewater and natural gas utilities in Florida have exclusive jurisdiction over the setting of rates for said systems, subject only to certain statutory restrictions upon water and wastewater rates outside the municipal corporate limits. The City Commission's sole authority to set the level of the rates and charges of the System is constrained by the Resolution to set rates that comply with the rate covenant in the Resolution and takes into account recommendations of the Utilities Advisory Board regarding proposed changes in fees, rates, or charges

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

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

#### Electric System

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

The table below presents electric system base rate revenue requirements, fuel and purchased power adjustment and total residential bill changes since 2013 and Management's most recent projections of future base rate revenue requirements, fuel and purchased power adjustment and total residential bill changes.

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**Electric System  
Base Rate Revenue Requirements, Fuel and Purchased Power  
Adjustment and Total Bill Changes<sup>(4)</sup>**

	Percentage Base Rate Revenue Requirements <u>Increase/(Decrease)<sup>(1)</sup></u>	Percentage Fuel and Purchased Power Adjustment <u>Increase/(Decrease)<sup>(2)</sup></u>	Total Residential Bill Percentage <u>Increase/(Decrease)<sup>(3)</sup></u>
Historical (Fiscal Year Beginning):			
October 1, 2013	(5.60)%	37.20%	9.20%
October 1, 2014	(8.50)	17.00	2.70
October 1, 2015	0.00	(6.70)	(5.20) <sup>(3)</sup>
October 1, 2016	0.00	(3.70)	(2.00)
October 1, 2017	2.00	0.00	1.15
February 1, 2018 <sup>(4)</sup>	31.40	(50.00)	(8.00)
Projected (Fiscal Year Beginning): <sup>(5)</sup>			
October 1, 2018	3.00%	2.00%	2.50%
October 1, 2019	4.00	2.00	2.90
October 1, 2020	2.00	2.00	2.00
October 1, 2021	1.00	2.00	1.50
October 1, 2022	1.00	2.00	1.50

<sup>(1)</sup> Change in overall system-wide non-fuel revenue requirement. Increases or decreases are applied to billing elements to reflect the most recent cost of service studies and to yield the overall revenue requirement.

<sup>(2)</sup> Historical change in weighted average retail fuel adjustment.

<sup>(3)</sup> Based on residential monthly bill at 1,000 kwh.

<sup>(4)</sup> Changes resulting from the acquisition of the DHR Biomass Plant.

<sup>(5)</sup> All changes in the System's revenue requirements are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

The electric and natural gas systems use amounts on deposit in a reserve known as the "fuel adjustment levelization balance" that the System accumulates. The balance of the reserve as of September 30, 2017, was negative \$4,729,317 for both electric and natural gas combined. The balance of this fund is anticipated to carry a balance of approximately 5% of the annual fuel expense budget on an average year.

In 2014, the City Commission approved the addition of an Economic Development Rate for new and existing general service demand and large power commercial electric customers of the System in an effort to attract large, regionally competitive new commercial customers and incentivize local growth. Approval of the applicable changes to the City Code of Ordinances occurred in November 2014. The Economic Development rate allows for a 5-year, 20% discount to the base rate portion of the electric bill of a new customer who adds a load of at least 100,000 kWh per month or a 15% discount to the base rate portion of the electric bill of an existing customer who increases its baseline usage by a minimum of 20%. There is no discount on the fuel adjustment portion of the bill under this program, but the addition of

load will distribute the fixed costs of the DHR Biomass Plant across a greater number of kWh, lowering the fuel adjustment for all customers. This program is base revenue neutral during the five year discount period, with additional base revenues after the discount ends. The System does not have any customers currently participating in this program.

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

Rates and Charges for Electric Service

The electric rates, effective October 1, 2017, are provided below by class of service. Though the rates are functionally unbundled, they are commonly presented in a bundled format.

Residential Standard Rate

Customer charge, per month.....	\$14.25
First 850 kWh, Total charge per kWh.....	\$0.044
All kWh per month over 850, Total charge per kWh .....	\$0.066

Non-Residential General Service Non-Demand Rates

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

Customer charge, per month.....	\$29.50
First 1,500 kWh per month, Total charge per kWh.....	\$0.070
All kWh per month over 1,500, Total charge per kWh .....	\$0.103

Non-Residential General Service Demand Rates

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

Customer charge, per month.....	\$100.00
Total Demand charge, per kW .....	\$8.50
Total Energy charge, per kWh.....	\$0.0412

Non-Residential Large Power Rates

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

Customer charge, per month.....	\$350.00
Total Demand charge, per kW .....	\$8.50
Total Energy charge, per kWh.....	\$0.037

Customers in all classes are charged a fuel and purchased power adjustment. Chapter 203, Florida Statutes, imposes a tax at the rate of 2.5% on the gross receipts received by a distribution company for utility services that it delivers to retail consumers in the state of Florida and requires that the distribution company report and remit its Florida Gross Receipts tax to the Florida Department of Revenue on a monthly basis. All non-exempt customers residing within the City's corporate limits pay a utility tax (public service tax) of 10% on portions of their bill. All non-exempt customers not residing within the City's corporate limits are assessed a surcharge of 10% and also pay a County utility tax of 10% on portions of their bill. All non-residential taxable customers pay a State sales tax of 6.95% on portions of their bill. The minimum bill is the customer charge plus any applicable demand charge. The billing demand is defined as the highest demand (integrated for 30 minutes) established during the billing month. The City's codified rate ordinances include clauses providing for primary service metering discounts and facilities leasing adjustment.

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Comparison with Other Utilities

The table below shows the average monthly bills for electric service for certain selected Florida electric utilities, including the System. Residential bills are commonly compared at 1,000 kWh in Florida, however GRU's customers typically average closer to 800 kWh per month.

**Comparison of Monthly Electric Bills<sup>(1)</sup>**

	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
Kissimmee Utility Authority	\$96.51	\$157.3	\$2,662.99	\$36,439.02
Lakeland Electric	\$101.21	\$148.11	\$2,408.30	\$33,765.56
Orlando Utilities Commission	\$106.00	\$165.22	\$2,574.60	\$35,172.40
Florida Power & Light Company	\$106.16	\$159.34	\$2,549.28	\$35,765.56
JEA	\$108.50	\$155.64	\$2,715.10	\$37,886.50
Tampa Electric Company	\$109.55	\$171.92	\$2,650.15	\$36,301.30
City of Tallahassee	\$112.81	\$146.16	\$2,779.47	\$37,827.16
Clay Electric Cooperative, Inc.	\$112.90	\$171.05	\$2,728.25	\$35,806.00
Ft. Pierce Utilities Authority	\$116.84	\$184.43	3,170.85	\$47,367.20
Ocala Electric Authority	\$117.64	\$174.42	\$3,011.51	\$43,274.63
<b>Gainesville Regional Utilities</b>	<b>\$121.00</b>	<b>\$215.50</b>	<b>\$3,665.50</b>	<b>\$49,359.00</b>
City of Vero Beach	\$122.95	\$191.41	\$3,428.15	\$48,398.40
Duke (Energy Florida)	\$128.03	\$195.55	\$3,004.91	\$42,029.02
Gulf Power Company	\$142.24	\$204.55	\$3,058.63	\$43,000.38

<sup>(1)</sup> Rates in effect for February 2018 applied to noted billing units, ranked by residential bills. Includes 6% franchise fees for investor-owned utilities FPL, Gulf, Tampa Electric Company and Duke. Excludes utility taxes, sales taxes and surcharges. The System's bills in the table assume participation in the Business Partners Program.

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

Water and Wastewater System

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

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

	Percentage Revenue Requirement Increase <sup>(1)</sup>	Total Bill Increase <sup>(2)</sup>
Historical		
October 1, 2013	3.85	10.20
October 1, 2014	3.75	1.90
October 1, 2015	3.75	10.40
October 1, 2016	3.00	2.20
October 1, 2017	0.00%	0.00%
Projected <sup>(3)</sup>		
October 1, 2018	0.00	0.00
October 1, 2019	0.00	0.00
October 1, 2020	0.00	0.00
October 1, 2021	0.00	0.00
October 1, 2022	0.00	0.00

<sup>(1)</sup> 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.

<sup>(2)</sup> Based on monthly bill at 5 Kgal.

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

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

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

	Percentage Revenue Requirement Increase <sup>(1)</sup>	Total Bill Increase <sup>(2)</sup>
Historical		
October 1, 2013	2.40	1.70
October 1, 2014	4.85	4.00
October 1, 2015	4.85	3.30
October 1, 2016	3.00	1.50
October 1, 2017	0.00%	0.00%
Projected <sup>(3)</sup>		
October 1, 2018	0.00	0.00
October 1, 2019	0.00	0.00
October 1, 2020	4.00	4.00
October 1, 2021	4.00	4.00
October 1, 2022	4.00	4.00

<sup>(1)</sup> 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.

<sup>(2)</sup> Based on monthly bill at 5 Kgal.

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

*Rates and Charges for Water and Wastewater Services*

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

Residential customers are subject to inverted block rates. As of October 1, 2015, the first tier pricing is applied to the first 4,000 gallons used, the second tier pricing is applied to usage between 5,000 and 16,000 gallons, and the third tier pricing is applied to usage above 16,000 gallons. A three tier billing structure has been in place since 2001. Over time the thresholds for quantities of water billed in each block has been lowered to current break points.

The City Commission also adopted a new Multi-Family water rate as part of the fiscal year 2015 budget. The pricing for the usage charge is the same as the second tier of the three tier residential rate.

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 1900's. In October 1999, the University of Florida water rates were indexed to non-residential water rates. Specifically, the off-campus price was established at 89% of the published System price. The on-campus price was 78% of the off-campus price. In 2004, the University of Florida rates became cost-of-service based.

Monthly Service Charges

Monthly customer charges are levied for the actual units of service rendered to individual customers. Customers pay a rate per thousand gallons of water consumed or wastewater treated, and all customers pay a monthly customer charge, as shown on Table 1 below. All wastewater customers are subject to rate surcharges for wastewater discharges which exceed normal domestic strength. Commercial customers are billed 95% of their water usage as wastewater while residential customers are billed the lesser of actual water usage or winter maximum usage, in order to better identify water used for domestic purposes for wastewater billing. Table 2 below lists the charges for water and wastewater service that will become effective October 1, 2017. These rates are unchanged from fiscal year 2017.

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

<u>Meter Size</u>	<u>Monthly Customer Charge</u>
5/8" and 3/4"	\$ 9.45
1"	9.65
1.5"	12.50
2"	20.00
3"	74.00
4"	100.00
6"	140.00
8"	200.00
10"	275.00

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

Water Rates:	
Residential	
Customer Billing Charge .....	Based on meter size
Consumption Rate:	
1,000 to 4,000 gallons .....	\$2.45 per 1,000 gallons
5,000 to 16,000 gallons .....	\$3.75 per 1,000 gallons
17,000 or more gallons.....	\$6.00 per 1,000 gallons
Commercial	
Customer Billing Charge .....	Based on meter size
Consumption Rate .....	\$3.85 per 1,000 gallons
University of Florida	
Customer Billing Charge .....	Based on meter size
Consumption Rate:	
On-campus facilities.....	\$2.29 per 1,000 gallons
Off-campus facilities.....	\$2.83 per 1,000 gallons
City of Alachua <sup>(1)</sup>	
Customer Billing Charge .....	Based on meter size
Consumption Rate .....	\$1.62 per 1,000 gallons
Wastewater Rates:	
Residential and Commercial	
Customer Billing Charge.....	\$9.10 per month
All Usage <sup>(2)</sup> .....	\$6.30 per 1,000 gallons

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

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

Comparison with Other Cities

The System's average water and wastewater charges in effect for the month of October 2017 are compared to those for thirteen other Florida cities (based on rates in effect for February 2018) in the table below.

**Comparison of Monthly Residential Water  
and Wastewater<sup>(1)</sup>**

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
<b>Gainesville Regional Utilities</b>	<b>\$30.50</b>	<b>\$53.20</b>	<b>\$83.70</b>
Ocala	\$16.64	\$44.57	\$61.21
Lakeland	\$23.53	\$46.54	\$70.07
Orlando	\$14.43	\$50.37	\$64.48
Tampa	\$21.04	\$44.08	\$65.12
Jacksonville	\$23.37	\$46.33	\$69.70
Pensacola (ECUA)	\$29.02	\$50.64	\$79.66
Tallahassee	\$24.57	\$59.77	\$84.34
Ft. Pierce	\$38.73	\$53.73	\$92.46

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<sup>(1)</sup> Comparisons are based on 7,000 gallons of metered water and 7,000 gallons of wastewater treated and rates in effect for February 2018. Excludes all taxes, surcharges, and franchise fees. Sorted in ascending order by total charges. GRU's rates are as of October 2017 and other utility rates are as of February 2018.

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

Surcharge

Non-exempt water customers residing within the City's corporate limits are assessed a 10% utility tax. Non-exempt water customers residing outside the City's corporate limits are assessed a 25% surcharge and pay a 10% County utility tax. There is no utility tax on wastewater. However, non-exempt wastewater customers residing outside the City's corporate limits are assessed a 25% surcharge. Effective October 1, 2001, water and wastewater connection charges were subject to the 25% surcharge imposed on non-exempt customers not residing within the City's corporate limits. This surcharge on connection fees was suspended for fiscal year 2015 and was re-implemented in fiscal year 2016.

Connection Charge Methodology

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

connections, with an estimated use greater than 280 gallons per day, will pay a flow-based connection charge. Multi-family connections will continue to pay flow-based connection charges and are not affected by these changes.

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

Effective October 1, 2017, transmission and distribution/collection system connection charges for individual lots are \$448 to connect to the water system and \$744 to connect to the wastewater system. Water and wastewater plant connection charges for individual lots are \$675 and \$2,554, respectively. The water meter installation charge is \$677 for a typical single family dwelling (requiring 3/4 inch meter). The total water system connection charges for a typical single family dwelling (requiring 3/4 inch meter) are \$1,800 for new water service and the total wastewater connection charges are \$3,298 for new wastewater service. Total water and wastewater connection charges for a typical single family dwelling are \$5,098. Also, there is a 25% surcharge applied to new connections located outside of the incorporated area of the City.

#### Infrastructure Improvement Area

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

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

#### Natural Gas System

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

The table below presents natural gas system base rate revenue requirements, purchased gas adjustment and total residential bill changes since 2013 and Management's most recent projections of future base rate revenue requirements, purchased gas adjustment and total residential bill changes. The percentage changes shown 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) <sup>(1)</sup>	Percentage Purchased Gas Adjustment Revenue Increase/(Decrease) <sup>(2)</sup>	Total Bill Increase/(Decrease) <sup>(3)</sup>
<b>Historical</b>			
October 1, 2013	0.85	0.00	(0.60)
October 1, 2014	4.25 <sup>(4)</sup>	4.10	3.90
October 1, 2015	4.75	(36.40)	8.30
October 1, 2016	9.00	(13.10)	4.40
October 1, 2017	0.00%	0.00% <sup>(5)</sup>	0.00% <sup>(5)</sup>
<b>Projected<sup>(4)</sup></b>			
October 1, 2018	0.00	2.00	0.40
October 1, 2019	0.00	2.00	0.50
October 1, 2020	0.00	2.00	0.50
October 1, 2021	0.00	2.00	0.50
October 1, 2022	0.00	2.00	0.50

<sup>(1)</sup> 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" above.

<sup>(2)</sup> Historical purchased gas adjustment revenue increase represents the change in weighted average purchased gas adjustment.

<sup>(3)</sup> Based on monthly residential bill at 25 therms.

<sup>(4)</sup> 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.

<sup>(5)</sup> Includes purchase gas adjustment increase equal to \$0.23 per therm.

Rates and Charges for Natural Gas Service

The current natural gas rates, effective October 1, 2017, are provided below by class of service:

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

Customers in all classes are charged a purchased gas adjustment and the Manufactured Gas Plant Cost Recovery Factor. Chapter 203, Florida Statutes, imposes a 2.5% tax based on an index price applied to the quantity of gas billed. All non-exempt customers residing within the City's corporate limits pay a City utility tax of 10% on portions of their bill. All non-exempt customers not residing within the City's corporate limits pay a 10% County utility tax on portions of their bill and a 10% surcharge on portions of their bill. All non-residential taxable customers pay a State sales tax of 6% on portions of their bill. For firm customers, the minimum bill equals the customer charge.

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Comparison with Other Utilities

The System's average natural gas charges in effect for the month of October 2017 are compared to those for eleven other municipal and private natural gas companies (based on rates effective February 2018) in the following table. The System's gas rates are among the lowest in the State.

**Comparison of Monthly Natural Gas Bills<sup>(1)</sup>**

	Residential <u>25 therms</u>	General Firm <u>300 therms</u>	Large Volume <u>30,000 therms</u>
<b>Gainesville Regional Utilities</b>	<b>\$32.64</b>	<b>\$262.68</b>	<b>\$17,068.00</b>
Okaloosa Gas District	\$38.42	\$313.30	\$21,895.84
Tallahassee	\$39.98	\$395.71	\$22,241.79
Clearwater	\$44.50	\$409.00	\$30,250.00
City of Sunrise	\$44.74	\$378.60	\$19,218.65
Ft. Pierce	\$47.33	\$334.72	\$23,989.19
Kissimmee <sup>(2)</sup>	\$47.89	\$348.96	\$27,675.70
Lakeland <sup>(2)</sup>	\$47.89	\$348.96	\$27,675.70
Orlando <sup>(2)</sup>	\$47.89	\$348.96	\$27,675.70
Tampa <sup>(2)</sup>	\$47.89	\$348.96	\$27,675.70
Central Florida Gas	\$55.07	\$448.37	\$30,374.70
Pensacola	\$60.30	\$584.88	\$30,397.07

<sup>(1)</sup> Rates in effect for February 2017 applied to noted billing volume (excludes all taxes). GRU's rates are as of October 2017 and other utility rates are as of February 2017.

<sup>(2)</sup> Service provided by People's Gas.

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

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

The following table shows comparisons of the total monthly cost for a "basket" of electric, gas, water and wastewater services for residential customers in selected Florida locales for the month of October 2017, based upon (a) typical average usage by the System's residential customers by category of service and (b) standard industry benchmarks for average usage by residential customers.

**Comparison of Monthly Utility Costs<sup>(1)</sup>**

	Based Upon Typical Average Usage by Residential Customers <u>of the System<sup>(2)</sup></u>	Based Upon Standard Industry Usage Benchmarks <sup>(3)</sup>
Tampa	\$173.21	\$222.56
Kissimmee	\$175.38	\$214.48
Orlando	\$177.74	\$226.74
Lakeland	\$178.99	\$219.17
<b>Gainesville Regional Utilities</b>	<b>\$182.01</b>	<b>\$237.34</b>
Jacksonville	\$184.65	\$226.09
Tallahassee	\$187.98	\$237.14
Ocala	\$188.39	\$226.74
Clay County	\$190.13	\$228.02
Vero Beach	\$194.34	\$239.17
Ft. Pierce	\$202.49	\$256.63
Pensacola	\$220.62	\$282.21

<sup>(1)</sup> Based upon rates in effect for February 2018 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. GRU rates are as of October 2017.

<sup>(2)</sup> Monthly costs of service have been calculated based upon typical average annual usage by residential customers of the System during the fiscal year ended September 30, 2017, as follows: for electric service: 800 kWh; for natural gas service: 20 therms; for water service: 5,000 gallons of metered water; and for wastewater service: 4,000 gallons of wastewater treated.

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

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

Since the System's rates for electric, water and wastewater service are designed to encourage conservation, average usage of those utility services by residential customers of the System are lower than the standard industry benchmarks for average 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 average usage by such customers, compares favorably to what the total monthly cost of such services would have been, calculated based upon such standard industry benchmarks.

### Summary of Combined Net Revenues

The following table sets forth a summary of combined net revenues for the fiscal years 2013, 2014, 2015 and 2016, along with combined net revenue information for the nine-month period ended June 30, 2017. The information is derived from the audited financial statements of the City for the System. Such information should be read in conjunction with the City's audited financial statements for the System and the notes thereto for the fiscal years ended September 30, 2013, 2014, 2015, 2016 and 2017, referenced in APPENDIX B-1 attached hereto or in prior audited financial statements.

	Fiscal Years Ended September 30, (in thousands)				
	2013	2014	2015	2016	2017
<b>Revenues:</b>					
Electric	\$249,410	\$280,482	\$298,914	\$308,071	\$317,644
Water	32,368	31,827	32,524	33,818	35,091
Wastewater	37,667	36,052	38,261	42,346	44,185
Gas	24,241	25,801	24,111	24,325	21,925
GRUCom	12,206	10,694	12,600	11,744	11,450
Total Revenues	<u>\$355,892</u>	<u>\$384,856</u>	<u>\$406,410</u>	<u>\$420,304</u>	<u>\$430,295</u>
<b>Operation and Maintenance Expenses<sup>(1)</sup>:</b>					
Electric	\$167,524	\$203,506	\$217,082	\$225,290	\$235,525
Water	13,132	13,321	13,559	14,827	15,463
Wastewater	13,584	13,968	14,334	17,388	19,052
Gas	14,779	16,726	15,318	14,577	12,902
GRUCom	5,374	6,492	8,460	7,422	7,109
Total Operation and Maintenance Expenses	<u>\$214,393</u>	<u>\$254,013</u>	<u>\$268,753</u>	<u>\$279,504</u>	<u>\$290,051</u>
<b>Net Revenues:</b>					
Electric	\$81,886	\$76,976	\$81,832	\$82,781	\$82,119
Water	19,236	18,506	18,965	18,991	19,627
Wastewater	24,083	22,084	23,927	24,958	25,133
Gas	9,462	9,075	8,793	9,748	9,023
GRUCom	6,832	4,202	4,140	4,322	4,341
Total Net Revenues	<u>\$141,499</u>	<u>\$130,843</u>	<u>\$137,657</u>	<u>\$140,800</u>	<u>\$140,243</u>
Aggregate Debt Service on Bonds	\$56,101	\$54,860	\$55,461	\$55,822	\$55,989
Debt Service Coverage Ratio for Bonds	2.52	2.39	2.48	2.52	2.50
Debt Service on Subordinated Indebtedness <sup>(2)</sup>	<u>\$11,789</u>	<u>\$5,182</u>	<u>\$6,178</u>	<u>\$6,205</u>	<u>6,583</u>
Total Debt Service on Bonds and Subordinated Indebtedness	\$67,890	\$60,042	\$61,639	\$62,027	\$62,572
Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness <sup>(3)</sup>	2.08 <sup>(3)</sup>	2.18 <sup>(3)</sup>	2.23 <sup>(3)</sup>	2.27 <sup>(3)</sup>	2.24 <sup>(3)</sup>

[Footnotes appear on following page]

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- (1) Includes administrative expenses. Excludes depreciation and amortization.
  - (2) Excludes principal of maturing commercial paper notes which were paid from newly-issued commercial paper notes.
  - (3) The historical debt service coverage calculation described above is based on the rate covenant described in "SECURITY FOR THE BONDS-Rate Covenant" herein. At the end of 2017 the DHR Biomass Plant was acquired using proceeds of the 2017 Series A Bonds, the 2017 Series B Bonds and the 2017 Series C Bonds. Therefore, historical debt service coverage levels shown in the table above would not necessarily be indicative of anticipated future debt service coverage levels in effect after the acquisition of the DHR Biomass Plant, in part, because of the debt which was necessary to finance the costs of such acquisition. The City anticipates that such coverage levels will drop significantly in future fiscal years. For the fiscal year ended September 30, 2018 for example, it is anticipated that such debt service coverage ratio for Bonds and Subordinated Indebtedness calculated this way will decrease approximately 1.80 times. Such acquisition is not expected to adversely affect the City's ability to pay debt service on the Outstanding Bonds, or to otherwise comply with any of its obligations under the Resolution, including the rate covenant. On the contrary, such acquisition is expected to improve financial results. In particular, the City expects to realize future annual cash flow savings from elimination of payments pursuant to the PPA, taking into account new annual debt service on the 2017 Bonds. When debt service coverage gets calculated on a cash flow basis rather than pursuant to the Resolution, the coverage level is expected to increase.

Source: Prepared by the Finance Department of the System.

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

See also "Management's Discussion and Analysis" in the audited financial statements of the System referenced in APPENDIX B-1 attached hereto. In addition, for a discussion of derivative transactions entered into by the System, see Note 9 to the audited financial statements of the System in APPENDIX B-1 attached hereto.

## **Management's Discussion of System Operations**

### Results of Operations

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

For the electric system, base rate revenue requirements for the fiscal year ended September 30, 2015 increased by 8.5%. For the fiscal year ended September 30, 2016, requirements were unchanged and

remained unchanged through the fiscal year ended September 30, 2017. While the System has experienced upward rate pressure due to sales growth, increased efficiencies and cost controls have kept the overall customer bill increases, including fuel, in line with inflation. For the fiscal year ended September 30, 2015, the electric system deposited \$2.3 million, to the Rate Stabilization Fund. For the fiscal years ended September 30, 2016 and 2017, the electric system withdrew \$1.0 million and \$15.5 million, respectively, from the Rate Stabilization Fund. For the fiscal year ended September 30, 2018, the electric system is projected to withdraw approximately \$7.5 from the Rate Stabilization Fund.

Energy sales (in MWh) to retail customers increased 1.8% per year from the fiscal year ended September 30, 2013 to the fiscal year ended September 30, 2017. The number of electric customers increased at an average annual rate of 0.89% for the fiscal years ended September 30, 2013 through 2017. Native load fuel costs for the electric system between the fiscal years ended September 30, 2015 and 2016, the electric fuel cost decreased by approximately \$1.0 million (1%). Between the fiscal years ended September 30, 2016 and 2017 fuel costs increased approximately \$6.67 million (4.3%). From the fiscal year ended September 30, 2015 to the fiscal year ended September 30, 2016 fuel revenues decreased by approximately \$10.2 million (7%).

For the fiscal years ended September 30, 2013 through 2017, natural gas sales decreased by .11% per year. The number of gas customers increased at an annual rate of approximately 1.09% between fiscal years ended September 30, 2013 and 2017.

Natural gas fuel cost decreased by approximately \$2.6 million (28%) between the fiscal years ended September 30, 2015 and 2016, and increased by approximately \$273 thousand (4%) between the fiscal years ended September 30, 2016 and 2017. This fluctuation in gas cost is reflective of the natural gas commodity market prices during the same timeframe. Since these costs are passed along to customers as part of the purchased gas adjustment charge each month, any natural gas cost increases or decreases are offset by purchased gas adjustment revenues. The base rate revenue requirement for the natural gas system remained unchanged for the fiscal year ended September 30, 2013, with a nominal increase of 0.85% for the fiscal year ended September 30, 2014. For the fiscal year ended September 30, 2015 base rate revenue requirement for the gas system was increased by 4.75%. For the fiscal years ended September 30, 2016 and 2017 the base rate revenue requirements were increased by 4.25% and 9.0%, respectively. For the fiscal year ended September 30, 2014, the natural gas system withdrew approximately \$1.0 million from the Rate Stabilization Fund. For the fiscal year ended September 30, 2015, the natural gas system deposited approximately \$1.6 million to the Rate Stabilization Fund. For the fiscal year ended September 30, 2016, the natural gas system withdrew approximately \$2.0 million from the Rate Stabilization Fund. For the fiscal year ended September 30, 2017, the natural gas system deposited approximately \$1.1 million to the Rate Stabilization Fund. In order to recover costs associated with the remediation of soil contamination caused by the operation of an MGP, the City established a per therm charge as part of the gas system's customer rate in the fiscal year ended September 30, 2003. The estimated remaining cost to be recovered is approximately \$17.0 million. See "-- The Natural Gas System – Manufactured Gas Plant" above. The MGP has billed at a rate of \$0.0556 per therm since October 1, 2014.

Water system sales are impacted by seasonal rainfall. For the fiscal year ended September 30, 2013 through 2017, sales decreased by an average annual rate of .88% and customers grew 1.01%. Revenues from water sales increased by approximately \$5,791,015 for the fiscal year ended September 30, 2013 through 2017. The water revenue increases were primarily the result of rate increases, kept moderate by low customer growth and slow sales growth due to price sensitivity and conservation efforts.

Water base rate revenue requirements were increased by 3.5% in the fiscal year ended September 30, 2013, 3.85% in the fiscal year ended September 30, 2014, 3.75% in each of the fiscal years ended September 30, 2015 and 2016, and for the fiscal year ending September 30, 2017, the base rate revenue requirement was increased by 3.0%. For the fiscal years ended September 30, 2015, 2016 and 2017, the water system contributed approximately \$2.4 million, \$3.3 million, and \$2.5 million, respectively, to the Rate Stabilization Fund.

Wastewater system billings generally track water system sales. From the fiscal year ended September 30, 2013 to 2017, the wastewater system billing volumes increased .29% per year. Revenues during this same period increased 13.6% due to base rate revenue requirement increases. Approximately 3.2% more wastewater was billed for the fiscal year ended September 30, 2017, as compared to fiscal year ended September 30, 2016, while revenues increased by 5.0% during the period, also due to base rate revenue requirement increases.

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

For the fiscal years ended September 30, 2015, 2016 and 2017, the wastewater system deposited approximately \$2.9 million, \$2.1 million and \$850 thousand, respectively, to the Rate Stabilization Fund. GRUCom's sales have increased from \$10.5 million in fiscal year ended September 30, 2013 to \$11.2 million in fiscal year ended September 30, 2017. This is a 6.7% increase over this 4 year time period. Sales were \$11.2 million, \$10.9 million and \$11.7 million in fiscal years ended September 30, 2014, 2015 and 2016, respectively. For the fiscal year ended September 30, 2015, GRUCom withdrew approximately \$1.4 million from the Rate Stabilization Fund, GRUCom deposited approximately \$7,400 from the Rate Stabilization fund, for the fiscal year ended September 30, 2016 and for the fiscal year ended September 30, 2017, GRUCom withdrew approximately \$585 thousand from the Rate Stabilization Fund.

The debt service coverage ratio ("DSCR") is a financial ratio that measures a company's ability to service its current debts by comparing its net operating income with its total debt service obligations. See "SUMMARY OF COMBINED NET REVENUES" above which shows GRU's DSCR for year's fiscal year 2013 through and including fiscal year 2017.

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.

### Liquidity Position

GRU periodically updates its liquidity targets based on an internal analysis of market, operating and other risk factors in order to determine an appropriate liquidity target for the System. The following table identifies this target as well as the sources of funds and accounts, to include available capacity in GRU's commercial paper program, that can be used to meet this liquidity target:

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
<b>Liquidity Targets:</b>	\$61,721,696	\$62,861,136	\$64,053,679	\$65,863,464	\$67,271,957
Operating Cash <sup>(1)</sup>	8,413,557	8,413,557	8,413,557	8,413,557	8,413,557
Rate Stabilization Fund	62,346,835	57,688,602	57,103,291	56,655,493	57,566,522
Utilities Plant Improvement Fund for Reserves <sup>(2)</sup>	<u>23,381,159</u>	<u>25,439,366</u>	<u>29,289,961</u>	<u>24,284,692</u>	<u>28,155,560</u>
<b>Total Reserves:</b>	<b>\$94,141,551</b>	<b>\$91,541,525</b>	<b>\$94,806,809</b>	<b>\$89,353,742</b>	<b>\$94,135,639</b>
Tax-Exempt CP/ Taxable					
CP Lines <sup>(3)</sup>	<u>40,000,000</u>	<u>40,000,000</u>	<u>40,000,000</u>	<u>40,000,000</u>	<u>40,000,000</u>
Total Liquidity and Lines	\$134,141,551	\$131,541,525	\$134,806,809	\$129,353,742	\$134,135,639
<b>Over/Under Target</b>	<b>\$72,419,855</b>	<b>\$68,680,389</b>	<b>\$70,753,130</b>	<b>\$63,490,278</b>	<b>\$66,863,682</b>

- (1) Includes 60 days of operating cash. For the Fiscal Year ended September 30, 2017, GRU maintained approximately 195 days of liquidity on hand.
- (2) Consists of total Utilities Plant Improvement Fund balances less Utilities Plant Improvement Fund funds restricted for debt service and construction.
- (3) GRU currently expects additional capacity in the calendar year 2018.  
Source: Prepared by the Finance Department of the System.

#### Transfers to General Fund

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

This transfer formula is to be reviewed at least every other year by the System's staff and the City's General Government staff. The transfer amount may be paid from any part of the System's revenue or a combination thereof. The City Commission may modify the transfer amount or the transfer formula at any time. As disclosed in "-Legislative Matters Affecting the City", there is a voter referendum scheduled for November 2018. If approved by the voters, a new utility board will replace the City Commission as the governing body of the System and the new utility board is given the authority to reduce the transfer amount by up to 3% each year thereafter.

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The transfers to the General Fund made in the fiscal years ended September 30, 2012 through and including 2017 were as follows:

<u>Fiscal Years ended September 30,</u>	<u>Transfers to General Fund</u>	
	<u>Amount</u>	<u>% Increase/(Decrease)</u>
2012	\$36,004,958	2.2%
2013	36,656,458	1.8%
2014	37,316,841 <sup>(1)</sup>	1.5%
2015	34,892,425	(7.1)%
2016	34,994,591	0.03%
2017	35,814,010	2.3%

<sup>(1)</sup> Year ended September 30, 2014 was the last year of a four year agreement regarding General Fund transfer calculation methodology, where the agreed upon value was compared to prior formulaic calculation and a gain/loss sharing was applied.  
Source: Prepared by the Finance Department of the System.

The projected transfers to the General Fund made in the fiscal years ended September 30, 2018 through and including 2020 are as follows:

<u>Fiscal Years ended September 30,</u>	<u>Projected Transfers to General Fund</u>	
	<u>Amount</u>	<u>% Increase/(Decrease)</u>
2018	\$36,351,220	1.5%
2019	36,896,488	1.5%
2020	37,449,935	1.5%

Source: Prepared by the Finance Department of the System.

### Investment Policies

The System's investment policy provides for investment of its funds. The primary goals of the investment policy are (1) preservation of capital, (2) providing sufficient liquidity to meet expected cash flow requirements, and (3) providing returns commensurate with the risk limitations of the program. The System's funds are invested only in securities of the type and maturity as permitted by the Resolution, Florida Statutes and its internal investment policy. The System does not presently have, nor does it intend to acquire in the future, derivative or leveraged investments or investments in mortgage-backed securities. The System does not invest its funds through any governmental or private investment pool (including, without limitation, the Florida PRIME or the former Local Government Surplus Funds Trust Fund administered by the State's Board of Administration).

### Debt Management Policy

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

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

### Competition

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

Management's response to the increasing competition in the wholesale power market (including interchange and economy sales), and the corollary open access changes in the electric transmission network has been to stay involved and form strategic alliances. These alliances fall into two categories, joint ventures and industry associations. The most significant joint venture the System is currently involved in is TEA, a Georgia nonprofit corporation established for power marketing, fuels procurement, and financial hedging and risk management (see "- The Electric System - Energy Sales - *The Energy Authority*" above). The System's staff is very involved with the American Public Power Association, the Florida Municipal Electric Association ("FMEA"), and FMPA. These industry associations have proven to be a powerful way to stay informed, plan, and help shape federal and state policies to protect customer interests and assure the fair treatment of municipal systems.

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

services to several nearby cities in the County. See "- The Natural Gas System – Service Area" herein for a discussion of the status of the System's franchise agreement to provide natural gas service in the County.

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

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

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

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

Chilled water provides an additional revenue source, while providing a more efficient, cost effective cooling system that is consistent with environmental stewardship. The System's strategy for chilled water service does not depend on extensive distribution systems. Instead, each chilled water and generation facility is located near the premises of the development. Additionally, the chilled water systems are modular and can be expanded incrementally as the customer base grows. This strategy will limit the System's exposure for stranded assets or investing in infrastructure without having full subscription to the available service, especially at a time when development has slowed significantly.

The Innovation District is an area of approximately 80 acres between the University of Florida's campus and downtown Gainesville that has been master planned and is being transformed into an area of high urban density to house and support scientific research and development and technology based businesses as well as residential, retail, and hospitality development. The Innovation District is currently a mixture of low density office, commercial and residential uses, and includes the former Shands at

Alachua General Hospital ("AGH") site. The former Shands at AGH was demolished and the entire site is now called Innovation Square. The University of Florida has constructed a three-story building known as Innovation Hub on the site and has another building known as Innovation Hub Phase II under construction. Innovation Square is a research oriented development that forms the nucleus of the Innovation District. The Innovation District is projected to be comprised of approximately 3.7 million square feet of lab, business, residential, commercial, and institutional space. The System will have the opportunity to provide commercial power, emergency power, natural gas, water, wastewater, reclaimed water, chilled water, and telecommunication services to the Innovation District. The Innovation District is projected to constitute significant utility loads, including an electric load of more than 10 MW.

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

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

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

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

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

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

Liquidity Support for the System's Variable Rate Bonds

The System has entered into separate standby bond purchase agreements with certain commercial banks in order to provide liquidity support in connection with tenders for purchase of the 2005 Series C Bonds, the 2006 Series A Bonds, the 2007 Series A Bonds, the 2008 Series B Bonds and the 2012 Series B Bonds (collectively the "Liquidity Supported Bonds"). The following details the Liquidity Supported Bonds, the bank providing the liquidity support and the termination date of the current facility:

<u>Series</u>	<u>Bank</u>	<u>Expiration</u>
2005C	Landesbank Hessen Thüringen Girozentrale	November 24, 2020
2006A	Landesbank Hessen Thüringen Girozentrale	November 24, 2020
2007A	State Street Bank and Trust Company	March 1, 2018
2008B	Barclays Bank PLC	June 29, 2020
2012B	Citibank, N.A.	June 29, 2020

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

The standby bond purchase agreements relating to the 2005 Series C Bonds and the 2006 Series A Bonds, provides that it is an "event of default" on the part of the System thereunder if any of the ratings fall below "A2" (or its equivalent) by Moody's and below "A" (or its equivalent) by S&P, or below "A" (or its equivalent) by Fitch or is withdrawn or suspended. The standby bond purchase agreement relating to the 2007 Series A Bonds provides that it is an "event of default" on the part of the System thereunder if the ratings on the 2007 Series A Bonds, without taking into account third-party credit enhancement, fall below "Baa3" by Moody's and "BBB-" by S&P or are withdrawn or suspended. The standby bond purchase agreement relating to the 2008 Series B Bonds provides that it is an "event of default" on the part of the System thereunder if any rating on the 2008 Series B Bonds or any Parity Debt, without taking into account third-party credit enhancement, falls below "Baa3" by Moody's, "BBB-" by S&P or "BBB-" by Fitch or is withdrawn or suspended (other than any withdrawal or suspension that is taken for non-credit related reasons). The standby bond purchase agreement relating to the 2012 Series B Bonds provides that it is an "event of default" on the part of the System thereunder if the ratings on the 2012 Series B Bonds, without giving effect to any third-party credit enhancement, fall below "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). Any Liquidity Supported Bond purchased by the applicable bank under a standby bond purchase agreement will bear interest at the rate per annum set forth in such standby bond purchase agreement, which rate may be significantly higher than market rates of interest borne by such Bonds when held by investors.

Liquidity Support for the System's Commercial Paper Program

The System also has entered into separate credit agreements with certain commercial banks in order to provide liquidity support for the CP Notes. The CP Notes constitute Subordinated Indebtedness

under the Resolution. If, on any date on which a CP Note of a particular series matures, the System is not able to issue additional CP Notes of such series to pay such maturing CP Note, subject to the satisfaction of certain conditions, the applicable bank is obligated to honor a drawing under its credit agreement in an amount sufficient to pay the principal of such maturing CP Note. The credit agreements for the Series C Notes and the Series D Notes currently have stated termination dates of November 30, 2018 and August 28, 2020, 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 the System thereunder, the banks may, among other things, (a) issue "No-Issuance Instructions" to the issuing agent for the CP Notes of the applicable series, instructing such paying agent not to issue any additional CP Notes of such series thereafter, (b) terminate the commitment and the applicable bank's obligation to make loans or (c) require immediate payment from the System for any outstanding principal and accrued interest due under the respective credit agreement.

With respect to the Series C Notes, among others, it is an immediate termination event under the related credit agreement if the ratings assigned to any of the System's Bonds fall below "Baa3" by Moody's, "BBB-" by S&P or "BBB-" by Fitch or are suspended or withdrawn for credit-related reasons.

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

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

#### Direct Placement Transactions

The City has entered into direct placement transactions with two different counterparties under CCA agreements with respect to the 2017 Series B Bonds and 2017 Series C Bonds. The current counterparties are Wells Fargo Bank, N.A., for 2017 Series B Bonds, and Bank of America, N.A., for the 2017 Series C Bonds.

For the 2017 Series B Bonds, the City has entered into a direct placement transaction with Wells Fargo, N.A, for a three year term, expiring on XXXX. During the term of the transaction, the City will pay to the counterparty, a rate equal to 70% of the one-month LIBOR rate and an applicable spread of 35 basis points. Should the City's credit rating fall below "Aa3" from Moody's and/or 'AA-"from S&P, and/or "AA-"from Fitch, then the applicable spread will be increased by **[10 bps]** with each notch drop.

For the 2017 Series C Bonds, the City has entered into a direct placement transaction with Bank of America, N.A, for a three year term, expiring on XXXX. During the term of the transaction, the City will pay to the counterparty, a rate equal to 70% of the one-month LIBOR rate and an applicable spread of 41 basis points. Should the City's credit rating fall below "Aa3" from Moody's and/or 'AA-"from S&P, and/or "AA-"from Fitch, then the applicable spread will be increased by 10 basis points with each notch drop.

#### Interest Rate Swap Transactions

The City has entered into interest rate swap transactions with four 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, the 2008 Series B Bonds and the 2017 Series B Bonds. The current counterparties are Goldman Sachs Mitsui Marine Derivative Products, L.P. and JP Morgan Chase Bank, National Association, Goldman Sachs Bank, USA and Citibank, N.A.

For the 2005 Series B Bonds, the City has entered into a floating-to-floating rate interest rate swap transaction (the "2005 Series B Swap Transaction") for a pro rata portion of each of the maturities of the 2005 Series B Bonds. 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 and will receive from the counterparty a rate equal to 77.14% of the one-month LIBOR rate. GRU notes that the United Kingdom's Financial Conduct Authority ("FCA"), a regulator of financial services firms and financial markets in the U.K., has stated that they will plan for a phase out of LIBOR with a target end to the indices in 2021. The FCA has indicated they will no longer require the LIBOR indices be used after 2021, however LIBOR indices will not be prohibited from being used after 2021. GRU also notes that the International Swaps and Derivatives Association ("ISDA") has not issued formal directives addressing the planned phase-out of LIBOR. As of the date of this publication, it is unclear what the overall impact will be on the expected phase out of the LIBOR indices and the resulting change due to the potential alternative reference rate. 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 effect of the 2005 Series B Swap Transaction was to synthetically convert the interest rate on such pro rata portion of the 2005 Series B Bonds from a taxable rate to a tax-exempt rate. The City has designated the 2005 Series B Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution. The counterparty to the 2005 Series B Swap transaction (Goldman Sachs Mitsui Marine Derivatives Products L.P.) currently has a counterparty risk rating of "Aa2" from Moody's and a counterparty credit rating of "AA-" from S&P. When entered into, 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. On August 2, 2012, \$31,560,000 of the 2005 Series B Bonds were redeemed with proceeds from the issuance of the City's 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 the 2005 Series B Swap Transaction outstanding following the issuance of the 2012 Series B Bonds, as a partial hedge against the interest rate movements. The 2005 Series B Swap Transaction is subject to early termination by the City or the counterparty at certain times and under certain conditions. The currently scheduled termination of the 2005 Series B Swap Transaction is October 1, 2021.

The City entered into a floating-to-fixed rate interest rate swap transaction (the "2005 Series C Swap Transaction"). 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. Initially, 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 effect of the 2005 Series C Swap Transaction was to synthetically fix the interest rate on the 2005 Series C Bonds at a rate of approximately 3.20% per annum, although the City bears basis risk which could result in a realized rate over time that may be lower or higher than the 3.20% rate. The counterparty (JPMorgan Chase Bank) currently has a counterparty credit rating of "Aa3" from Moody's and a counterparty credit rating of "A+" from S&P. The City has designated the 2005 Series C Swap Transaction as a "Qualified Hedging Transaction". On August 2, 2012, \$17,570,000 of the 2005 Series C Bonds were redeemed with proceeds from the issuance of the 2012 Series B Bonds. The City left the 2005

Series C Swap Transaction outstanding following the issuance of the 2012 Series B Bonds, as a partial hedge against the interest rate movements. The 2005 Series C Swap Transaction is subject to early termination by the City or the counterparty at certain times and under certain conditions. The currently scheduled termination of the 2005 Series C Swap Transaction is October 1, 2026.

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"). During the term of the 2006 Series A Swap Transaction, the City will pay to the counterparty a fixed rate of 3.224% per annum and will receive from the counterparty a rate equal to 68% of the ten-year LIBOR swap rate minus 36.5 basis points. The effect of the 2006 Series A Swap Transaction was to synthetically fix the interest rate on the 2006 Series A Bonds at a rate of approximately 3.224% per annum, although the City bears basis risk, which could result in a realized rate over time that may be lower or higher than the 3.224% rate. Initially, 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 counterparty to the 2006 Series A Swap Transaction (Goldman Sachs Mitsui Marine Derivatives Products L.P.) currently has a counterparty risk rating of "Aa2" from Moody's and a counterparty credit rating of "AA-" from S&P. The City has designated the 2006 Series A Swap Transaction as a "Qualified Hedging Transaction". On August 2, 2012, \$25,930,000 of the 2006 Series A 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 outstanding as a partial hedge against the interest rate movements. The 2006 Series A Swap Transaction is subject to early termination by the City or the counterparty at certain times and under certain conditions. The currently scheduled termination of the 2006 Series A Swap Transaction is October 1, 2026.

The City has entered into a floating-to-fixed rate interest rate swap transaction (the "2007 Series A Swap Transaction") with respect to 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. 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. The effect of the 2007 Series A Swap Transaction is to synthetically fix the interest rate on the 2007 Series A Bonds at a rate of approximately 3.944% per annum. The counterparty to the 2007 Series A Swap Transaction (Goldman Sachs Mitsui Marine Derivatives Products L.P.) currently has a counterparty risk rating of "Aa2" from Moody's and a financial program rating of "AA-" from S&P. The City has designated the 2007 Series A Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution. The 2007 Series A Swap Transaction is subject to early termination by the City or the counterparty at certain times and under certain conditions. The currently scheduled termination of the 2007 Series A Swap Transaction is October 1, 2036.

The City has entered into two floating-to-fixed rate interest rate swap transactions (the "2008 Series B Swap Transactions") with respect to 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. During the terms of the 2008 Series B Swap Transactions, the City will pay to the counterparty a fixed rate of 4.229% per annum and will receive from the counterparty a rate equal to the SIFMA Municipal Swap Index. The effect of the 2008 Series B Swap Transactions is to synthetically fix the interest rate on the 2008 Series B Bonds at a rate of approximately 4.229% per annum. The counterparty to the 2008 Series B Swap Transactions (JPMorgan Chase Bank) currently has a counterparty risk rating of

"Aa3" from Moody's and a financial program rating of "A+" from S&P. The City has designated each of the 2008 Series B Swap Transactions as a "Qualified Hedging Transaction" within the meaning of the Resolution. The 2008 Series B Swap Transactions are subject to early termination by the City or the counterparty at certain times and under certain conditions. The currently scheduled termination of the 2008 Series B Swap Transaction is October 1, 2038.

As detailed above, the interest rates on the 2012 Series B Bonds are hedged, in part, by the 2005 Series B and C Swap Transaction as well as the 2006 Series A Swap Transaction.

The City has entered into a cancellable floating-to-fixed rate interest rate swap transaction (the "2017 Series B Swap Transaction") with respect to the 2017B Bonds. The two counterparties for this swap transaction are Citigroup, N.A. and Goldman Sachs Bank USA. In the aggregate, terms of the 2017 Series B Swap Transactions are identical to the term of the 2017B Bonds, and the notional amounts of the 2017 Series B Swap Transactions will amortize at the same times and in the same amounts as the 2017B Bonds. Where Goldman Sachs Bank, USA is the counterparty, during the term of this 2017 Series B Swap Transaction, the City will pay a fixed rate per annum of 2.119% and GRU will receive from the counterparty a rate equal to 70% of 1 month LIBOR. The current notional amount with respect to Goldman Sachs Bank, USA is \$105,000,000. Where Citibank N.A. is the counterparty, during the term of this 2017 Series B Swap Transaction, the City will pay to Citibank, N.A., a fixed rate per annum of 2.11% and GRU will receive from the counterparty a rate equal to 70% of 1 month LIBOR. The effect of the 2017 Series B Swap Transaction is to synthetically fix the interest rate on the 2017B Bonds. The City has designated the 2017 Series B Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution. The 2017 Series B Swap Transaction is subject to early termination by the City or the counterparty or counterparties at certain times and under certain conditions. The currently scheduled termination of the 2017 Series B Swap Transaction is October 1, 2044. However, the City has an optional early terminate date of October 1, 2027 and semiannually thereafter, subject to early termination terms. The parties entered into a bilateral Credit Support Annex to which eligible collateral includes cash or Treasury securities having a remaining maturity on such date of one year or less, Treasury securities having a remaining maturity on such date greater than one up to and including five years or Treasury securities having a remaining maturity on such date of greater than five years up to and including ten years. The threshold amount for posting collateral is based upon the counterparty's or counterparties' long term unsecured and unenhanced debt ratings from S&P and Moody's and the City's credit ratings on senior lien Bonds. If the credit ratings drop below BBB- by S&P and Baa3 by Moody's, the threshold shall be \$0.

In December of 2017, the President signed the Tax Cuts and Jobs Act into law. One provision of this law was to change the maximum corporate tax rate from 35% to 21%. Based on the Agreements underlying the 2017 Series B Bonds, there was an adjustment to the percent of LIBOR that GRU pays on the bonds. The effect was to change the index associated with the 2017 Series B Bonds from 70% of 1 Month LIBOR to 85% of 1 Month LIBOR. Due to this change, the underlying index for the bonds no longer matches the underlying index for the 2017 Series B Swap Transaction. GRU does not believe these changes are material in nature.

Under the master agreements, the interest rate swap transactions entered into pursuant to such master agreements are subject to early termination upon the occurrence of certain "events of default" and upon the occurrence of certain "termination events." One such "termination event" with respect to the Bonds is a suspension or withdrawal of certain credit ratings with respect to the Bonds, or a downgrade of such ratings below the levels set forth in the master agreement or in the confirmation related to a

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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## Funding the Capital Improvement Program - Additional Financing Requirements

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

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

Source: Prepared by the Finance Department of the System.

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

## Factors Affecting the Utility Industry

### General

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

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

### Environmental and Other Natural Resource Regulations

The System and its operations are subject to federal, state and local environmental regulations which include, among other things, control of emissions of particulates, mercury, acid gases, SO<sub>2</sub> and NO<sub>x</sub> into the air; discharges of pollutants, including heat, into surface or ground water; the disposal of wastes and reuse of products generated by wastewater treatment and combustion processes; management of hazardous materials; and the nature of waste materials discharged into the wastewater system's collection facilities. Environmental regulations generally are becoming more numerous and more stringent and, as a result, may substantially increase the costs of the System's services by requiring

changes in the operation of existing facilities as well as changes in the location, design, construction and operation of new facilities (including both facilities that are owned and operated by the System as well as facilities that are owned and operated by others, from which the System purchases output, services, commodities and other materials). There is no assurance that the facilities in operation, under construction or contemplated will always remain subject to the regulations currently in effect or will always be in compliance with future regulations. Compliance with applicable regulations could result in increases in the costs of construction and/or operation of affected facilities, including associated costs such as transmission and transportation, as well as limitations on the operation of such facilities. Failure to comply with regulatory requirements could result in reduced operating levels or the complete shutdown of those facilities not in compliance as well as the imposition of civil and criminal penalties.

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

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

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

### Air Emissions

#### *The Clean Air Act*

The Clean Air Act regulates emissions of air pollutants, establishes national air quality standards for major pollutants, and requires permitting of both new and existing sources of air pollution. Among the provisions of the Clean Air Act that affect the System's operations are (1) the acid rain program, which requires nationwide reductions of SO<sub>2</sub> and NO<sub>x</sub> from existing and new fossil-fueled electric generating plants, (2) provisions related to toxic or hazardous pollutants, and (3) requirements to address regional haze.

The Clean Air Act also requires persons constructing new major air pollution sources or implementing significant modifications to existing air pollution sources to obtain a permit prior to such construction or modifications. Significant modifications include operational changes that increase the emissions expected from an air pollution source above specified thresholds. In order to obtain a permit for these purposes, the owner or operator of the affected facility must undergo a "new source review," which requires the identification and implementation of BACT for all regulated air pollutants and an analysis of the ambient air quality impacts of a facility. In 2009, the EPA announced plans to actively

pursue new source review enforcement actions against electric utilities for making such changes to their coal-fired power plants without completing new source review. Under Section 114 of the Clean Air Act, the EPA has the authority to request from any person who owns or operates an emission source, information and records about operation, maintenance, emissions, and other data relating to such source for the purpose of developing regulatory programs, determining if a violation occurred (such as the failure to undergo new source review), or carrying out other statutory responsibilities.

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

On July 6, 2011, the EPA released its final Cross-State Air Pollution Rule ("CSAPR"). This rule is the final version of the Transport Rule and replaces Clean Air Interstate Rule ("CAIR"). In Florida, only ozone season NO<sub>x</sub> emissions are regulated by CSAPR through the use of allowances.

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

On July 28, 2015, the D.C. Circuit ruled that Florida's allowance budget is invalid and remanded CSAPR to the EPA. On October 26, 2016 EPA published, in the *Federal Register* at 81 Fed. Reg. 74504, an update to the CSAPR to address the 2008 Ozone National Ambient Air Quality Standards ("NAAQS"). For three states (North Carolina, South Carolina and Florida), the EPA is removing the states from the CSAPR ozone season NO<sub>x</sub> trading program because modeling for the Final Rule indicates that these states do not contribute significantly to ozone air quality problems in downwind states under the 2008 ozone NAAQS. Therefore, GRU will not have to meet ozone season limits in 2018 and, most likely, 2019.

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

On December 16, 2011, the EPA promulgated a rule to reduce emissions of toxic air pollutants from power plants. Specifically, these mercury and air toxics standards or MATS for power plants will reduce emissions from new and existing coal- and oil-fired electric utility steam generating units ("EGU"). The EPA also signed revisions to the new source performance standards for fossil fuel-fired EGUs. Such revisions revised the standards that new coal- and oil-fired power plants must meet for particulate matter, SO<sub>2</sub> and NO<sub>x</sub>. On November 25, 2014, the United States Supreme Court accepted certiorari to hear challenges to the mercury rules.

On June 29, 2015, the U.S. Supreme Court issued a 5-to-4 decision reversing a prior D.C. Circuit decision to uphold MATS for electric generating units. *Michigan, et al. v. EPA, et al., No. 14-46 ("Michigan v. EPA")*. The Court granted review on a single issue: "Whether the Environmental Protection Agency unreasonably refused to consider costs in determining whether it is appropriate to regulate hazardous air pollutants emitted by electric utilities." Writing for the majority, Justice Scalia held that EPA "strayed far beyond" the "bounds of reasonable interpretation" when the Agency interpreted the Clean Air Act to mean that it "could ignore costs when deciding to regulate power plants." The Court remanded the case to the D.C. Circuit Court for further proceedings consistent with the Court's opinion. On August 10, 2015, EPA stated in a motion filed with the D.C. Circuit Court that the EPA then planned to revise its "appropriate and necessary" determination for MATS by the spring of 2016, prior to the extended MATS compliance deadline of April 15, 2016. The EPA also stated that it intended to request that the D.C.

Circuit Court remand the rule without vacatur while the EPA works on this revision. Since the D.C. Circuit Court did not vacate the rule, the MATS rule is still in effect.

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

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

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

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

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

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

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

### Effluent Limitation Guidelines

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

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

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

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

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

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

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

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

and variance activities (explained in the email below). The challenges against other elements of the ELG Rule will move forward.

### Regional Haze

On June 15, 2005, the EPA issued the Clean Air Visibility Rule, amending its 1999 regional haze rule, which had established timelines for states to improve visibility in national parks and wilderness areas throughout the United States. Under the amended rule, certain types of older sources may be required to install best available retrofit technology ("BART"). Some of the effects of the amended rule could be requirements for newer and cleaner technologies and additional controls for particulate matter, SO<sub>2</sub> and NO<sub>x</sub> emissions from utility sources. The states were to develop their regional haze implementation plans by December 2007, identifying the facilities that will have to reduce emissions and then set emissions limits for those facilities. However, states have not met that schedule and on January 15, 2009, the EPA published a notice finding that 37 states (including Florida), the District of Columbia and the Virgin Islands failed to submit all or a portion of their regional haze implementation plans. The EPA's notice initiates a two-year period during which each jurisdiction must submit a haze implementation plan or become subject to a Federal Implementation Plan issued by the EPA that would set the basic program requirements. See "-- The Electric System – Energy Supply System – *Generating Facilities – Deerhaven*" herein for a description of the actions that have been taken by the System to install additional emission control equipment at DH 2 and reduce SO<sub>2</sub> and NO<sub>x</sub> emissions that potentially contribute to regional haze.

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

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

### Internal Combustion Engine MACT

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

### Climate Change

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

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

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

On October 23, 2015, the American Public Power Association ("APPA") and the Utility Air Regulatory Group ("UARG") filed a joint petition for review of the EPA's final Section 111(d) rule to regulate carbon dioxide ("CO<sub>2</sub>") emissions from existing electric generating sources in the D.C. Circuit Court. In addition, the state of West Virginia joined by Texas, Alabama, Arkansas, Colorado, Florida, Georgia, Indiana, Kansas, Kentucky, Louisiana, Michigan, Missouri, Montana, Nebraska, New Jersey, Ohio, South Carolina, South Dakota, Utah, Wisconsin, Wyoming, the Arizona Corporation Commission, and the North Carolina Department of Environmental Quality also filed their motion to stay the final Section 111(d) rule under the Clean Air Act. Such a stay would put implementation of the rule on hold until the court decides on its legality.

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

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

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

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

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

### Coal Combustion Products

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

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

### Storage Tanks

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

### Remediation Sites

Several site investigations have been completed at the JRK Station, most recently in 2011. According to previous assessments, the horizontal extent of soils impacted with No. 6 fuel oil extends from the northern containment wall of the aboveground storage tanks to the wastewater filter beds and from the old plant building to Sweetwater Branch Creek. The results of the most recent soil assessment document the presence of Benzo[a]pyrene in one soil sample at a concentration greater than its default

commercial/industrial direct exposure based soil cleanup target levels ("SCTL"). Four of the soil samples contained Benzo[a]pyrene equivalents at concentrations greater than its default commercial/industrial direct exposure based SCTLs. In addition, two of the soil samples contained total recoverable petroleum hydrocarbons at concentrations greater than its default commercial/industrial direct exposure based SCTLs.

In the Site-Wide Monitoring Report dated March 24, 2011, measurable free product was detected in four wells. An inspection in April 2013 showed that groundwater contains four of the polynuclear aromatic hydrocarbons ("PAH") (Benzo[a]anthracene, Benzo[a]pyrene, Benzo[b]fluoranthene, and Dibenzo[a,h]anthracene) at concentrations greater than their groundwater cleanup target levels ("GCTL"). With the exception of Benzo[a]pyrene, the concentration of the remainder of these parameters did not exceed their Natural Attenuation Default Concentrations. The groundwater quality data reported in the 2011 Site-Wide Groundwater Monitoring Report documents that groundwater quality meets applicable GCTLs at the locations sampled. It is likely that groundwater quality impacts exist in the area where residual number 6 Fuel Oil is present as a non-aqueous phase liquid.

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

#### Water Use Restrictions

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

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

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

the City Commission adopted a resolution to opt into the County's "year round water conservation measures" and "water shortage regulations" ordinances in order to give the Alachua County Environmental Protection Department the authority to enforce water shortage orders and water shortage emergencies within the City.

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

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

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

#### Manufactured Gas Plant

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

#### Wholesale and Retail Electric Restructuring

##### *Energy Policy Act of 2005*

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

- Balancing Authority
- Distribution Provider

- Generation Owner
- Generation Operator
- Planning Authority
- Resource Planner
- Transmission Owner
- Transmission Operator
- Transmission Planner

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

#### FERC Order 779

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

#### FERC Order 1000

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

##### Planning element reforms:

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

##### Cost allocation reforms:

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

- A similar cost allocation is required when neighboring transmission regions select an interregional solution.
- Participant finding is permitted. However, it may not be the regional or interregional allocation schema.

Developer reforms:

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

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

#### Impact of Hurricane Irma

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

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

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

The extreme rainfall and flooding had the biggest impact to the wastewater system. The flooding resulted in significant inflow of stormwater and floodwaters into the collection system which resulted in comingled wastewater and stormwater overwhelming portions of the collection system. There were numerous locations that the collection system experienced overflows. GRU and private pumpers hauled over 13.8 million gallons of stormwater and wastewater from the collection system to mitigate release impact and help bring the system back to normal operation. During the hurricane and in the following days, it is estimated that approximately 3.5 million gallons of combined stormwater and wastewater were

released from the collection system. It is estimated that approximately 80% (or 2.8 mg) of the release was stormwater and 20% (or 0.7 mg) was wastewater. Additionally, GRU lost power to 92 of the 170 wastewater lift stations. However, GRU was able to utilize 41 generators to keep such lift stations operational. GRU restored power to most of the GRU served lift stations by September 12, 2017. There was minimal impact to customers.

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

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

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

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

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

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

Irma's impacts to the System. Based on past experience, the City expects FEMA reimbursements to approximate 75% of the expenditures.

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

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

#### Other Risk Factors

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

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

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

### **LEGAL MATTERS**

Certain legal matters in connection with the issuance of the Series C Notes issued to finance the Project and Series C Notes issued from time to time to refinance such Project pursuant to a single separate program under Section 1.150 - 1(c)(4) of the Treasury Department Regulations (the "Additional Series C Notes") are subject to an approving legal opinion of Holland & Knight LLP, Lakeland, Florida, Note Counsel, whose approving opinion (a form of which is attached hereto as "APPENDIX E-3 – Form of Holland & Knight Opinion (Additional Series C Notes)"), will be available at the time of delivery of the Additional Series C Notes and is hereinafter referred to as the "Holland & Knight Opinion". The actual legal opinion to be delivered may vary from that text if necessary to reflect facts and law on the date of delivery. The Holland & Knight Opinion will speak only as of its date, and subsequent distribution of it by recirculation of the Offering Memorandum or otherwise shall create no implication that subsequent to the date of the opinion that Note Counsel has reviewed or expresses any opinion concerning any of the matters referenced in the opinion. The Holland & Knight Opinion is based on existing law, which is subject to change. Such opinion is further based on factual representations made to Note Counsel as of the date thereof. Note Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances, including changes in law that may thereafter occur or become effective. Note Counsel has not undertaken independently to verify and therefore expresses no opinion as to the completeness, fairness, or sufficiency of any of the information or statements contained in this Offering Memorandum or any exhibits, schedules or attachments hereto, except as to the accuracy of the information in the

section hereof captioned "SECURITY FOR THE CP NOTES" to the extent such portions purport to summarize certain provisions of the Senior Bond Resolution, the Subordinated Bond Resolution, the Second Supplemental Subordinated Bond Resolution, the Fourth Supplemental Subordinated Bond Resolution and the CP Notes, and except as to the accuracy of the information under the caption "TAX MATTERS – Tax Exemption of Additional Series C Notes", as it applies to the Additional Series C Notes.

Certain legal matters in connection with the issuance of the Series C Notes that do not constitute Additional Series C Notes (the "Original Series C Notes") are subject to the approving legal opinion of Orrick, Herrington & Sutcliffe LLP, New York, New York delivered April 25, 2008 and attached hereto as APPENDIX E-1 hereto and such opinion is hereinafter referred to as the "Orrick Opinion".

The Holders of a particular Series C Note may not know if such Series C Note is an Additional Series C Note or not, and therefore may not know if such Series C Note is subject to the Holland & Knight Opinion or the Orrick Opinion. The Holder of such Series C Note will be subject to either the Holland & Knight Opinion or the Orrick Opinion.

Certain legal matters in connection with the issuance of the Series D Notes are subject to the approving legal opinion of Orrick, Herrington & Sutcliffe LLP, New York, New York delivered November 28, 2014 and attached hereto APPENDIX E-2.

Such opinions rendered by Orrick, Herrington & Sutcliffe LLP speak only as of their date of April 25, 2008, and incorporation by reference into this Offering Memorandum or subsequent distribution or recirculation of such Offering Memorandum or offerings creates no implication that subsequent to the date of such opinions that Orrick, Herrington & Sutcliffe LLP has reviewed or expresses any opinion concerning any matters referenced in such opinions. Orrick, Herrington & Sutcliffe LLP has had no involvement whatsoever with respect to preparation of this Offering Memorandum or the issuance of the Additional Series C Notes.

Certain legal matters will be passed on for the City by Nicolle M. Shalley, Esq., Gainesville, Florida, City Attorney and Bryant Miller Olive P.A., Tampa, Florida, Disclosure Counsel.

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

## **TAX MATTERS**

### **Original Series C Notes and Series D Notes**

The information related to the Original Series C Notes contained in the CP Notes Prior Offering Memorandum under the heading "TAX MATTERS – Series C Notes" is hereby incorporated herein by reference.

The information related to the Series D Notes contained in the CP Notes Prior Offering Memorandum under the heading "TAX MATTERS – Series D Notes" is hereby incorporated herein by reference.

## **Tax Exemption of Additional Series C Notes**

In the opinion of Holland & Knight LLP, Lakeland, Florida, Note Counsel, under existing law, interest on the Additional Series C Notes when issued is excludable from gross income for federal income tax purposes.

The Internal Revenue Code of 1986, as amended (the "Code") and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Additional Series C Notes in order for the interest thereon to be and remain excludable from gross income for federal income tax purposes. Examples include: the requirement that, unless an exception applies, the City rebate certain excess earnings on proceeds and amounts treated as proceeds of the Additional Series C Notes to the United States Treasury Department; restrictions on the investment of such proceeds and other amounts; and certain restrictions on the ownership and use of the facilities financed or refinanced with the proceeds of the Additional Series C Notes. The foregoing is not intended to be an exhaustive listing of the post-issuance tax compliance requirements of the Code, but is illustrative of the requirements that must be satisfied subsequent to the issuance of the Additional Series C Notes to maintain the exclusion of interest on the Additional Series C Notes from gross income for federal income tax purposes. Failure to comply with such requirements may cause the inclusion of interest on the Additional Series C Notes in the gross income of the holders thereof for federal income tax purposes, retroactive to the original date of issuance of the Additional Series C Notes. The City has covenanted to comply with each such requirement of the Code that must be satisfied subsequent to the issuance of the Additional Series C Notes in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The opinion of Note Counsel is subject to the condition that the City comply with all such requirements. Note Counsel has not been retained to monitor compliance with the described post-issuance tax requirements subsequent to the issuance of the Additional Series C Notes.

Note Counsel gives no assurance that any future legislation or clarifications or amendments to the Code, if enacted into law, will not cause the interest on the Additional Series C Notes when issued to be subject, directly or indirectly, to federal income taxation, or otherwise prevent the CP Noteholders from realizing the full current benefit of the tax status of the interest on the Additional Series C Notes. During recent years, legislative proposals have been introduced in Congress, and in some cases have been enacted, that have altered or could alter certain federal tax consequences of owning obligations similar to the Additional Series C Notes. In some cases, these proposals have contained provisions that were to be applied on a retroactive basis. It is possible that legislation could be introduced in the near term that, if enacted, could change the federal tax consequences of owning the Additional Series C Notes and, whether or not enacted, could adversely affect their market value. Prospective purchasers of the Additional Series C Notes are encouraged to consult their own tax advisors regarding any pending or proposed federal legislation, as to which Note Counsel expresses no view. The opinions expressed by Note Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Additional Series C Notes, and Note Counsel has expressed no opinion as of any date subsequent thereto.

As to certain questions of fact material to the opinion of Note Counsel, Note Counsel will rely upon representations and covenants made on behalf of the City and certificates of appropriate officers and public officials (including certifications as to the use of proceeds of the Additional Series C Notes and of the property financed or refinanced thereby).

The opinion of Note Counsel states that it may continue to be relied upon subsequent to its date only to the extent that (i) there is no change in law (whether of the Code or in the judicial or Internal Revenue Service interpretation thereof) that may adversely affect the validity of the Additional Series C Notes or the exclusion of the interest thereon from the gross income of the holders thereof for federal income tax purposes, (ii) the representations, agreements and covenants contained in the Subordinated Bond Resolution and the City's Certificate as to Tax, Arbitrage, and Other Matters concerning the Additional Series C Notes, as the same may be supplemented and amended from time to time with Note Counsel's knowledge and consent, remain true and accurate and are complied with, (iii) there has not been delivered to the City an opinion of Note Counsel or any other firm of more recent date with respect to the matters referred to in the opinion of Note Counsel, and (iv) neither the opinion of Note Counsel nor the opinion of counsel to the City on which Note Counsel has relied has been expressly withdrawn (unless replaced by a subsequent opinion) as evidenced by a letter of Note Counsel to the City and the Issuing Agent or by a letter of counsel to the City to Note Counsel and the Issuing Agent, as the case may be.

*Alternative Minimum Tax.* An alternative minimum tax is imposed by the Code on both corporations (as defined for federal income tax purposes) and on taxpayers other than corporations. Interest on the Additional Series C Notes will not be treated as an item of tax preference for purposes of the alternative minimum tax. Interest on the Additional Series C Notes when issued will therefore not be included in the alternative minimum taxable income of corporations or of taxpayers other than corporations. Interest on the Additional Series C Notes received by a corporate CP Noteholder will, however, be included in such CP Noteholder's adjusted current earnings. A corporation's alternative minimum taxable income will be increased by seventy-five percent (75%) of the corporation's adjusted current earnings not otherwise included in its alternative minimum taxable income. The rate of the alternative minimum tax imposed on corporations is twenty percent (20%).

*Other Tax Consequences.* Prospective purchasers of the Additional Series C Notes should be aware that ownership of the Additional Series C Notes may result in collateral federal income tax consequences to certain taxpayers, including without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S Corporations with "excess net passive income," foreign corporations subject to the branch profits tax, individuals entitled to receive the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Additional Series C Notes. Prospective purchasers of the Additional Series C Notes should also be aware that ownership of the Additional Series C Notes may result in adverse tax consequences under the laws of various states. Note Counsel has not expressed an opinion regarding the collateral federal income tax consequences that may arise with respect to the Additional Series C Notes. Further, Note Counsel has expressed no opinion regarding the state tax consequences that may arise with respect to the Additional Series C Notes. Prospective purchasers of the Additional Series C Notes should consult their tax advisors as to the collateral federal income tax and state tax consequences to them of owning the Additional Series C Notes.

The federal income tax consequences from the purchase, ownership and redemption, sale or other disposition of Additional Series C Notes which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. Holders of Additional Series C Notes, should consult their own tax advisors with respect to the consequences of owning Additional Series C Notes, including the effect of such ownership under applicable state and local laws.

*Information Reporting and Backup Withholding.* Interest paid on tax-exempt bonds, such as the Additional Series C Notes, is subject to information reporting to the Internal Revenue Service in a manner similar to interest paid on taxable obligations. This reporting requirement does not affect the excludability of interest on the Additional Series C Notes from gross income for federal income tax purposes. However, in conjunction with that information reporting requirement, the Code subjects certain non-corporate owners of Additional Series C Notes, under certain circumstances, to "backup withholding" at the fourth lowest rate applicable to unmarried individuals with respect to payments on the Additional Series C Notes and proceeds from the sale of Additional Series C Notes. Any amounts so withheld would be refunded or allowed as a credit against the federal income tax of such owner of Additional Series C Notes. This withholding generally applies if the owner of Additional Series C Notes (i) fails to furnish the paying agent (or other person who would otherwise be required to withhold tax from such payments) such owner's social security number or other taxpayer identification number ("TIN"), (ii) furnishes the paying agent an incorrect TIN, (iii) fails to properly report interest, dividends, or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the paying agent or such owner's securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such owner is not subject to backup withholding. Prospective purchasers of the Additional Series C Notes may also wish to consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding and the procedures for obtaining exemptions.

PURCHASE, OWNERSHIP, SALE OR DISPOSITION OF THE ADDITIONAL SERIES C NOTES AND THE RECEIPT OR ACCRUAL OF THE INTEREST THEREON MAY HAVE ADVERSE FEDERAL TAX CONSEQUENCES FOR CERTAIN INDIVIDUAL AND CORPORATE CP NOTEHOLDERS, INCLUDING, BUT NOT LIMITED TO, THE CONSEQUENCES DESCRIBED ABOVE. PROSPECTIVE CP NOTEHOLDERS SHOULD CONSULT WITH THEIR TAX SPECIALISTS FOR INFORMATION IN THAT REGARD.

Reference is made to the proposed form of the opinion of Note Counsel attached hereto as "APPENDIX C – Form of Holland & Knight Opinion (Additional Series C Notes)" for the complete text thereof. See also "LEGAL MATTERS" herein.

#### **FLORIDA SECURITIES LAWS**

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 CP Notes 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.

## RATINGS

The following are the existing ratings on the CP Notes. No confirmation of such ratings is being requested by the City from Fitch Ratings, Inc. ("Fitch"), Moody's Investors Service ("Moody's") or S&P in connection with the issuance of the Additional Series C Notes:

	<u>Fitch<sup>(1)</sup></u>	<u>Moody's<sup>(2)</sup></u>	<u>S&amp;P<sup>(3)</sup></u>
CP Notes	F1+	P-1	A-1+

<sup>(1)</sup> On November 22, 2016, Fitch provided the above referenced rating on the CP Notes.

<sup>(2)</sup> On November 17, 2015, Moody's affirmed the above referenced rating on the CP Notes.

<sup>(3)</sup> On December 12, 2016, S&P affirmed the above referenced rating on the CP Notes.

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: Fitch Ratings, Inc., One State Street Plaza, New York, New York 10004, Moody's Investors Service, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007 and Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041. Such rating agencies may have obtained and considered information and material which have not been included in this Offering Memorandum. The ratings reflect only the respective views of such rating agencies, and the City makes no representation as to the appropriateness of the ratings. Generally, rating agencies base their ratings on the information and materials furnished to them and on investigations, studies and assumptions by the rating agencies.

There is no assurance that such ratings will be in effect for any given period of time or that such ratings will not be revised upward or downward or withdrawn entirely by such rating agencies if, in the judgment of such rating agencies, circumstances so warrant. The City has not undertaken any responsibility after issuance of the CP Notes to assure the maintenance of the rating or to oppose any such revision or withdrawal. Any such downward revision or withdrawal of any ratings may have an adverse effect on the market price of the CP Notes.

## 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 CP Notes were originally issued, (ii) the validity of any provision of the CP Notes or the Resolution, (iii) the pledge by the City under the Resolution, (iv) the legal existence of the City or (v) the authority of the City to own and operate the System and to set utility rates.**

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

## **CONTINGENT FEES**

The City has retained Note Counsel, Disclosure Counsel and the Financial Advisor with respect to the issuance of the CP Notes. Payment of the fees of such professionals is contingent upon the issuance of the Series C Additional CP Notes.

## **INDEPENDENT AUDITORS**

The financial statements of the System as of September 30, 2017 and for the year then ended, included in APPENDIX B attached to this Reoffering Memorandum as a matter of public record and the consent of Purvis, Gray & Company LLP, independent auditors (the "Auditor") to include such documents was not requested. The Auditor was not requested to perform and has not performed any services in connection with the preparation of this Offering Memorandum. See "SECURITY FOR THE CP NOTES" herein. The audited financial statements are presented for general information purposes only and speak only as of their date.

## **FINANCIAL ADVISOR**

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

## **ACCURACY AND COMPLETENESS OF OFFERING MEMORANDUM**

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

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

[Remainder of page intentionally left blank]

**CERTIFICATION OF OFFERING MEMORANDUM**

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

CITY OF GAINESVILLE, FLORIDA

By: \_\_\_\_\_  
General Manager for Utilities

## APPENDIX A

### GENERAL INFORMATION REGARDING THE CITY

#### General

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

#### Organization and Administration

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

The following are the current members of the City Commission:

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

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

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

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

**Population**

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

**POPULATION GROWTH**

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

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

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

**Employment**

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

**EMPLOYMENT**

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

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

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

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

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Source: Finance Department, City of Gainesville, Florida.

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**Property Tax Data**

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

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

Fiscal Year Ended	Tax Year	Just Value			Exemptions					Total Taxable Assessed Value	Total Direct Tax Rate
		Real Property	Personal Property	Centrally Assessed Property	Governmental	Agricultural	Institutional	Homestead	Other (1)		
2008	2007	\$10,059,735,400	\$1,931,740,674	\$1,111,824	\$4,354,225,897	\$28,451,900	\$574,033,101	\$1,385,629,369	\$16,885,367	\$5,633,362,264	4.2544
2009	2008	10,599,500,250	1,732,004,529	1,149,322	4,195,267,980	35,549,700	647,733,978	1,773,423,757	14,341,607	5,666,337,079	4.2544
2010	2009	10,534,674,944	2,245,414,910	1,234,487	4,251,801,982	39,408,200	874,389,881	1,594,957,710	134,747,020	5,886,019,548	4.3963
2011	2010	10,570,350,300	2,241,373,073	987,726	4,815,548,071	37,517,700	896,937,822	1,313,405,085	141,081,893	5,608,220,528	4.2544
2012	2011	10,756,478,800	2,308,068,145	1,130,083	5,343,081,038	39,115,900	1,029,746,160	1,134,254,774	117,240,859	5,402,238,297	4.2544
2013	2012	10,437,604,712	2,386,565,278	1,073,991	5,408,327,315	37,576,500	1,112,522,902	993,996,869	109,161,684	5,163,658,711	4.4946
2014	2013	10,480,490,440	2,587,608,797	2,138,554	5,609,545,384	39,389,400	1,095,790,104	916,778,157	234,075,511	5,174,659,235	4.5780
2015	2014	10,508,455,900	2,979,114,148	2,210,823	5,603,063,413	39,298,000	1,129,921,784	895,414,243	178,766,271	5,643,317,160	4.5079
2016	2015	10,815,607,700	2,912,715,109	2,251,700	5,651,530,893	40,988,400	1,094,785,940	992,344,032	181,396,571	5,769,528,673	4.5079
2017	2016	11,183,742,495	3,179,982,350	2,303,808	5,923,396,413	42,466,700	1,065,499,494	1,041,502,131	267,520,476	6,025,643,439	4.5079

(1) Includes non-homestead residential and certain nonresidential property differentials between just value and capped value.  
Source: Finance Department, City of Gainesville, Florida and Alachua County Property Appraiser Final Ad Valorem Assessment Rolls.

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

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

(1) Tax roll year as of January 1.

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

(3) Sum of real and personal property value.

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

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

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

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

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

Source: Finance Department, City of Gainesville, Florida.

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

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

Source: Finance Department, City of Gainesville, Florida.

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

**OVERLAPPING GENERAL OBLIGATION DEBT<sup>(1)</sup>**

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

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

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

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

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

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

Source: Finance Department, City of Gainesville, Florida.

**OVERLAPPING SELF SUPPORTING AND  
NON-SELF SUPPORTING DEBT  
As of September 30, 2017**

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

Source: Finance Department, City of Gainesville, Florida.

**DEBT SUMMARY<sup>(1)</sup>  
AS OF SEPTEMBER 30, 2017**

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

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

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

<sup>(3)</sup> Includes general obligation debt of Alachua County School District.

Source: Finance Department, City of Gainesville, Florida.

## PRINCIPAL TAXPAYERS

### Tax Roll Year 2017

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

Source: Finance Department, City of Gainesville, Florida.

## LIABILITIES OF THE CITY

### **Insurance Considerations Affecting the City**

#### General

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

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

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

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

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

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

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

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

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

Health Insurance

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

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

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

Plan Description.

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

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

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

Annual OPEB Cost and Net OPEB Obligation

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

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

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

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

Funding Policy

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

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

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

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

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

#### Actuarial Methods and Assumptions

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

In the October 1, 2015 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions used included an 8.2% investment rate of return, compounded annually, net of investment expenses. The annual healthcare cost trend rate of 4.5% is the ultimate rate, which decreased

from 6% from the prior year. The select rate was 12% but was decreased to the ultimate rate in 2002. Both the rate of return and the healthcare cost trend rate include an assumed inflation rate of 3.75%.

The actuarial valuation of RHCP assets was set at fair market value of investments as of the measurement date. The RHCP's initial unfunded actuarial accrued liability ("UAAL") as of 1994 is being amortized as a level percentage of projected payroll over a closed period of twenty years from 1994 and changes in the UAAL from 1994 through 2003 are amortized over the remaining portion of the twenty-year period. Future changes in the UAAL will be amortized on an open period of ten years from inception.

Funded Status

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

**[Ability to be Sued, Judgments Enforceable**

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

**Debt Issuance and Management**

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

## Direct Debt

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

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

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

(2) Does not include the CP Notes.

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

## Defined Benefit Pension Plans

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

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

Employees' Plan

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

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

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

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

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

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

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

Employees are eligible for normal retirement:

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

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

Employees are eligible for early retirement:

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

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

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

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

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

Death benefits are paid as follows:

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

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

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

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

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

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

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

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

Components of Net Pension Liability

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

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

Actuarial Assumptions

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

Mortality Rate:

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

Long-term Expected Rate of Return:

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

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

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

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

Discount Rate:

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

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Changes in the Net Pension Liability

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

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

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

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

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$7,719,277	\$-
Changes to assumptions	27,523,573	-
Changes between projected and actual investment	<u>12,456,239</u>	<u>(31,349,541)</u>
Total	<u>\$47,699,089</u>	<u>\$(31,349,541)</u>

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

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

Consolidated Plan

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

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

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

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

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

Employees are eligible for normal retirement:

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

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

Employees are eligible for early retirement:

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

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

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

- If the retiree was eligible for retirement on or before 07/01/2013 and had at least 25 years of credited service upon retirement, 2% COLA begins after reaching age 55.
- If the retiree was eligible for retirement on or before 07/01/2013 had 20 years of credited service upon retirement, 2% COLA begins after reaching age 62.
- If the retiree was eligible for retirement after 07/01/2013 and had 25 years of credited service upon retirement 1% COLA begins after reaching age 55 and the COLA increases to 2% after reaching age 62.
- If the retiree retired under the Rule of Seventy with less than 20 years of credited service upon retirement, COLA begins after age 62. Effective July 1, 2013, Police Officers retiring under the Rule of Seventy are ineligible for COLA.

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

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

Retirement eligibility for Firefighters is as follows:

Employees are eligible for normal retirement:

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

Employees are eligible for early retirement:

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

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

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

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

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

Death benefits are paid as follows:

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

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

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

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

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

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

between the required contribution and actual contribution are due to actual payroll experiences varying from the estimated total payroll used in the generation of the actuarially required contribution rate. Administrative costs are financed through investment earnings.

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

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

Components of Net Pension Liability

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

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

Actuarial Assumptions

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

Mortality Rate:

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

Other Assumptions:

The actuarial assumptions used as of September 30, 2016 were based on the assumptions approved by the Board in conjunction with an experience study covering the 5 year period ending on September 30, 2010. Due to plan changes first valued in the October 1, 2012 actuarial valuation, changes

to the assumed retirement rates and the valuation methodology for the assumed increase in benefit service for accumulated sick leave and accumulated vacation paid upon termination were made. Payroll growth assumptions were updated in 2012 and investments were reviewed by the Board in February of 2015 based on an asset liability study reflecting the current investment policy.

Long-Term Expected Rate of Return:

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

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

Development of Long Term Discount Rate – Arithmetic

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

Discount Rate:

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

Changes in the Net Pension Liability

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

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

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

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

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

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

	Deferred Outflows <u>of Resources</u>	Deferred Inflow <u>of Resources</u>
Difference between expected and actual experience	\$-	\$(4,959,714)
Changes in assumptions	4,820,848	-
Difference between projected and actual investment earnings	10,552,283	(6,852,923)
Contributions after measurement date	<u>4,294,312</u>	<u>-</u>
Total	<u>\$19,667,443</u>	<u>\$(11,812,637)</u>

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

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

**APPENDIX B**  
**AUDITED FINANCIAL STATEMENTS**

**APPENDIX C-1**

**COMPOSITE OF THE SENIOR BOND RESOLUTION**

**APPENDIX C-2**

**SPRINGING AMENDMENTS TO THE SENIOR BOND RESOLUTION**

**APPENDIX D**

**COPY OF THE SUBORDINATED BOND RESOLUTION**

**APPENDIX E-1**

**SERIES C NOTES APPROVING OPINION OF ORRICK, HERRINGTON & SUTCLIFFE LLP**

**APPENDIX E-2**

**SERIES D NOTES APPROVING OPINION OF ORRICK, HERRINGTON & SUTCLIFFE LLP**

**APPENDIX E-3**

**FORM OF HOLLAND & KNIGHT OPINION (ADDITIONAL SERIES C NOTES)**

## APPENDIX F

### INFORMATION REGARDING SERIES C BANK AND THE SERIES C CREDIT AGREEMENT

Bank of America, N.A. (the "Series C Bank") is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Series C Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (the "Corporation") and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of December 31, 2017, the Series C Bank had consolidated assets of \$\_\_\_ trillion, consolidated deposits of \$\_\_\_ trillion and stockholder's equity of \$\_\_\_ billion based on regulatory accounting principles.

The Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2017, together with its subsequent periodic and current reports filed with the Securities and Exchange Commission (the "SEC").

Filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at <http://www.sec.gov>, which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning the Corporation and the Series C Bank is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the referenced documents and financial statements referenced therein.

The Series C Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the SEC pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of the Series C Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications  
100 North Tryon Street, 18<sup>th</sup> Floor  
Charlotte, North Carolina 28255  
Attention: Corporate Communication

PAYMENTS OF PRINCIPAL AND INTEREST ON THE SERIES C NOTES WILL BE MADE FROM PAYMENTS MADE BY THE SERIES C BANK UNDER THE SERIES C CREDIT AGREEMENT. ALTHOUGH THE SERIES C CREDIT AGREEMENT IS A BINDING OBLIGATION OF THE SERIES C BANK, THE SERIES C NOTES ARE NOT DEPOSITS OR OBLIGATIONS OF THE CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE SERIES C NOTES ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The delivery of this information shall not create any implication that there has been no change in the affairs of the Corporation or the Series C Bank since the date of the most recent filings referenced herein, or that the information contained or referred to in this APPENDIX D is correct as of any time subsequent to the referenced date.

A copy of the Series C Credit Agreement is attached hereto and made part of this APPENDIX D.

## APPENDIX G

### INFORMATION REGARDING SERIES D BANK AND THE SERIES D CREDIT AGREEMENT

State Street Bank and Trust Company (the "Bank") is a wholly-owned subsidiary of State Street Corporation (the "Corporation"). The Corporation (NYSE: STT) through its subsidiaries, including the Bank, provides a broad range of financial products and services to institutional investors worldwide. With \$33.12 trillion in assets under custody and administration and \$2.78 trillion in assets under management as of December 31, 2017, the Corporation operates in more than 100 geographic markets worldwide. As of December 31, 2017, the Corporation had consolidated total assets of \$238.43 billion, consolidated total deposits (including deposits in non-U.S. offices) of \$184.90 billion, total investment securities of \$97.58 billion, total loans and leases, net of unearned income and allowance for loan losses, of \$23.24 billion, and total shareholders' equity of \$22.32 billion.

The Bank's *Consolidated Reports of Condition and Income for A Bank With Domestic and Foreign Offices Only -- FFIEC 031* (the "Call Reports") through December 31, 2017 have been submitted through the Federal Financial Institutions Examination Council and provided to the Board of Governors of the Federal Reserve System, the primary U.S. federal banking agency responsible for regulating the Corporation and the Bank. Publicly available portions of those Call Reports, and future Call Reports so submitted by the Bank, are available on the Federal Deposit Insurance Corporation's website at [www.fdic.gov](http://www.fdic.gov). The Call Reports are prepared in conformity with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles.

Additional financial and other information related to the Corporation and the Bank, including the Corporation's Annual Report on Form 10-K for the year ended December 31, 2017 and additional annual, quarterly and current reports subsequently filed or furnished by the Corporation with the U.S. Securities and Exchange Commission (the "SEC"), can be accessed free of charge on the SEC's website at [www.sec.gov](http://www.sec.gov).

Any statement contained in any document referred to above shall be deemed to be modified or superseded for purposes of this Offering Memorandum to the extent that a statement contained herein or in any subsequently submitted, filed or furnished document that also is referred to above modifies or supersedes such statement. The delivery hereof shall not create any implication that there has been no change in the affairs of the Bank or the Corporation since the date hereof, or that information contained or referred to in this section is correct as of any time subsequent to this date. The information concerning the Corporation, the Bank or any of their respective affiliates is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced here.

A copy of any or all of the publicly available portions of the documents referred to above, other than exhibits to such documents, may be obtained without charge to each person to whom a copy of this Offering Memorandum has been delivered, on the written request of any such person. Written requests for such copies should be directed to Investor Relations, State Street Corporation, One Lincoln Street, Boston, Massachusetts 02111, telephone number 617-786-3000.

**The Series D Credit Agreement is an obligation solely of the Series D Bank and is not an obligation of, or otherwise guaranteed by, the Corporation or any of its affiliates (other than the Series D Bank). Neither the Corporation nor any of its affiliates (other than the Series D Bank) is required to make payments under the Series D Credit Agreement. None of the Series D Bank, the Corporation or any of their respective affiliates makes any representation as to, or is responsible for the suitability of the CP Notes for any investor, the feasibility or performance of any project or compliance with any securities or tax laws or regulations. The CP Notes are not direct obligations of, or guaranteed by, the Series D Bank, the Corporation or any of their respective affiliates, except to the extent provided in the Series D Credit Agreement.**

The Series D Credit Agreement is attached hereto and made part of this APPENDIX E.