RESOLUTION NO. 171090

A RESOLUTION COMPILING, CODIFYING, AMENDING AND RESTATING IN ITS ENTIRETY THE AMENDED AND RESTATED SUBORDINATED UTILITIES SYSTEM REVENUE BOND RESOLUTION DULY ADOPTED BY THE CITY OF GAINESVILLE, FLORIDA ON DECEMBER 8, 2003, AS SUCH RESOLUTION HAS BEEN HERETOFORE AMENDED AND SUPPLEMENTED; AND PROVIDING AN EFFECTIVE DATE.

BE IT RESOLVED BY THE CITY COMMISSION OF THE CITY OF GAINESVILLE, FLORIDA, AS FOLLOWS:

SECTION 1. AUTHORITY OF THIS RESOLUTION. This Resolution is adopted pursuant to the provisions of the Charter of the City of Gainesville, Florida (the "City").

SECTION 2. FINDINGS. It is hereby found and determined that:

A. On June 6, 1983, the City adopted its Amended and Restated Utilities System Revenue Bond Resolution, as amended, supplemented and restated (the "Senior Bond Resolution"), and as prospectively amended by the amendments to the Senior Bond Resolution set forth in Resolution No. 170395 adopted by the City on September 21, 2017 and incorporating by reference the Second Amended and Restated Utilities System Revenue Bond Resolution (the "Springing Amendments").

B. On January 26, 1989, the City adopted its Subordinated Utilities System Revenue Bond Resolution, as amended and restated by the Amended and Restated Subordinated Utilities System Revenue Bond Resolution adopted by the City on December 8, 2003, as heretofore amended (collectively, the "Subordinate Resolution").

C. The City now desires to further amend the Subordinate Resolution as reflected in the marked copy of the Subordinate Resolution attached hereto as Exhibit "A."

D. Because of the number of amendments, for convenience of reference, the City deems it advisable to again compile, codify and restate the Subordinate Resolution and all amendments thereof.

E. Pursuant to the provisions of Section 10.03 and Article XI of the Subordinate Resolution, the Subordinate Resolution as amended and restated hereby shall become effective upon the City obtaining the consent in writing of the Holders of not less than a majority in principal amount of the Subordinated Bonds then Outstanding and to the extent required by the terms of any resolution or ordinance or contract or agreement applicable thereto, consent of any Credit Enhancers, liquidity providers or swap counterparties, and until such time, the

Subordinate Resolution shall remain in effect without the amendments reflected in Exhibit "A."

F. The City has previously authorized the issuance of its Variable Rate Utilities System Revenue Bonds, 2007 Series A (the "2007 Series A Bonds") pursuant to the Senior Bond Resolution, as supplemented by a resolution entitled "Eighteenth Supplemental Utilities System Revenue Bond Resolution", adopted by the City on February 26, 2007 (the "Eighteenth Supplemental Resolution").

G. The City, pursuant to Section 3.06(c)(vi) of the Eighteenth Supplemental Resolution is causing the 2007 Series A Bonds to become subject to mandatory tender in order to obtain majority consent to the Springing Amendments Resolution.

H. The 2007 Series A Bonds were issued as variable rate demand obligations, initially in the Weekly Mode (such term, and all other capitalized terms used herein without definition, having the respective meanings assigned thereto in the Subordinate Resolution or, if not defined therein, in the Eighteenth Supplemental Resolution), and are subject to mandatory and optional tender for purchase at certain times and under certain circumstances.

I. In order to provide liquidity support for the 2007 Series A Bonds, the City entered into a Standby Bond Purchase Agreement dated as of March 1, 2007 (as amended from time to time, the "Liquidity Facility") with State Street Bank and Trust Company (the "Bank").

J. The City, pursuant to Section 3.06(c)(vi) of the Eighteenth Supplemental Resolution is causing the 2007 Series A Bonds to become subject to mandatory tender in order to enable the Springing Amendments to the Senior Bond Resolution.

K. All capitalized terms not otherwise defined herein shall have such meanings as given in the Senior Bond Resolution and the Subordinate Resolution.

SECTION 3. RESTATED RESOLUTION. The Subordinate Resolution is hereby amended and restated in its entirety to read as set forth on Exhibit "A" hereto and incorporated by reference herein, such amendments to become effective only upon the City obtaining the consent in writing of the Holders of not less than a majority in principal amount of Subordinated Bonds then Outstanding, the consent of the Trustee and, to the extent required by the terms of any ordinances or resolutions or other contract or agreement applicable thereto, consent of any Credit Enhancers, liquidity providers or swap counterparties and the satisfaction of all conditions set forth in the Senior Bond Resolution and the Subordinate Resolution. All exhibits to the Subordinate Resolution remain unchanged.

SECTION 4. MANDATORY TENDER OF 2007 SERIES A BONDS. Subject to the provisions set forth herein, the General Manager, the Chief Financial Officer or such other Authorized Officer of the City, is hereby authorized and empowered to

execute and deliver or cause to be executed and delivered such other documents and opinions and to do all such acts and things as may be necessary or desirable in connection with authorizing the mandatory tender of the 2007 Series A Bonds in order to cause approval of the holders of such Bonds for the effectiveness of the Springing Amendments. The Springing Amendments shall become effective only upon the City obtaining the consent in writing of the Holders of not less than a majority in principal amount of Bonds then Outstanding, the consent of the Trustee and, to the extent required by the terms of any ordinances or resolutions or other contract or agreement applicable thereto, consent of any Credit Enhancers, liquidity providers or swap counterparties and the satisfaction of all conditions set forth in the Senior Bond Resolution. Upon the mandatory tender and remarketing thereof, by acceptance of a remarketed 2007 Series A Bonds, the holder thereof shall be deemed to have irrevocably consented in writing to the Springing Amendments.

The Authorized Officers are hereby authorized to approve and execute, on behalf of the City, the Reoffering Memorandum relating to the 2007 Series A Bonds, in substantially the form attached as Exhibit "B," and all future supplements and amendments thereto (collectively, the "Reoffering 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 Reoffering Memorandum in connection with the remarketing of the 2007 Series A Bonds is hereby approved.

SECTION 5 AMENDMENTS TO LIQUIDITY FACILITIES. The Authorized Officers, collectively or individually, upon satisfaction of the conditions set forth herein, are hereby authorized to enter into amendments to the Credit Agreement dated as of August 1, 2014, as amended by the First Amendment to Credit Agreement dated as of June 12, 2017, and as further amended by the Second Amendment to Credit Agreement dated as of November 7, 2017, each between the City and State Street Bank and Trust Company and the Credit Agreement dated as of November 30, 2015 between the City and Bank of America, N.A, to modify the terms thereof in order to accommodate their reasonable requests for granting consent to the amendments to the Subordinate Resolution, provided, such amendments do not change the applicable fees and charges of such Credit Agreement. The Clerk of the Commission of the City is hereby authorized to cause the seal of the City to be affixed to any of the foregoing documents and to attest the same, to the extent required therein. Such officers are each hereby authorized to deliver such agreements on behalf of the City.

SECTION 6 FURTHER ACTIONS. Each Authorized Officer is hereby authorized and empowered to execute and deliver or cause to be executed and delivered such other documents and opinions and to do all such acts and things as may be necessary or desirable in connection with the adoption of this Resolution and carrying out the terms of the Bond Resolution.

SECTION 7 EFFECTIVE DATE. This Resolution shall take effect immediately upon its passage in the manner provided by law, and shall become effective in accordance with Section 3 and Section 4 hereof.

PASSED AND DULY ADOPTED this 17th day of May, 2018.

CITY OF GAINESVILLE, FLORIDA

(SEAL)

By_____
Mayor

ATTESTED:

By_____
for Clerk of the Commission

APPROVED AS TO FORM AND LEGALITY:

By_____
Office of the City Attorney

#56135845_v8
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EXHIBIT "A"

SECOND AMENDED AND RESTATED SUBORDINATED
UTILITIES SYSTEM REVENUE BOND RESOLUTION

CITY OF GAINESVILLE, FLORIDA

Subordinated Utilities System Revenue Bonds

SECOND AMENDED AND RESTATED SUBORDINATED UTILITIES SYSTEM REVENUE BOND RESOLUTION

Adopted May 17, 2018

TABLE OF CONTENTS

Page

SECOND AMENDED AND RESTATED SUBORDINATED UTILITIES SYSTEM REVENUE BOND RESOLUTION

WHEREAS, on June 6, 1983, the City of Gainesville, Florida (the "City") adopted a resolution entitled "Utilities System Revenue Bond Resolution" (such resolution, as the same is amended from time to time, being referred to herein as the "Original Bond Resolution") for the purpose of authorizing the issuance of Bonds (as defined in the hereinafter defined Bond Resolution) from time to time to finance and refinance Costs of Acquisition and Construction of the System (as such terms are defined in the Bond Resolution); and

WHEREAS, on December 8, 2003, the City adopted a resolution, supplemental to and amendatory of the Original Bond Resolution, entitled "Amended and Restated Utilities System Revenue Bond Resolution," as amended, including, without limitation as prospectively amended by Resolution No. 170395 adopted by the City on September 21, 2017 and incorporating by reference the Second Amended and Restated Utilities System Revenue Bond Resolution (such resolution being referred to herein as the "Amended and Restated Bond Resolution" or the "Bond Resolution") for the purpose of amending and restating the Original Bond Resolution; and

WHEREAS, on January 26, 1989, the City adopted a resolution, supplemental to the Bond Resolution, entitled "Subordinated Utilities System Revenue Bond Resolution" (such resolution, as the same heretofore has been supplemented, being referred to herein as the "Subordinated Bond Resolution") for the purpose of authorizing the issuance of Subordinated Bonds (as defined in the hereinafter described Amended and Restated Subordinated Bond Resolution) from time to time to finance and refinance Costs of Acquisition and Construction of the System; and

WHEREAS, on January 30, 2003, the City adopted a resolution, supplemental to and amendatory of the Subordinated Bond Resolution, entitled "Amended and Restated Subordinated Utilities System Revenue Bond Resolution" (such resolution being referred to herein as the "Amended and Restated Subordinated Bond Resolution") for the purpose of amending and restating the Subordinated Bond Resolution; and

WHEREAS, Section 11.02 of the Amended and Restated Subordinated Bond Resolution provides that, except as otherwise provided therein, any modification or amendment of the Amended and Restated Subordinated Bond Resolution and of the rights and obligations of the City and of the holders of the Subordinated Bonds thereunder, in any particular, may be made by a Supplemental Subordinated Resolution (as defined in the Amended and Restated Subordinated Bond Resolution), with the written consent given as provided in Section 11.03 of the Amended and Restated Subordinated Bond Resolution of the holders of not less than a majority in principal amount of the Subordinated Bonds Outstanding (as defined in the Amended and Restated Subordinated Bond Resolution) at the time such consent is given; and

WHEREAS, in order to conform the provisions of the Amended and Restated Subordinated Bond Resolution to the provisions of the Original Bond Resolution, as amended and restated by the Amended and Restated Bond Resolution, and to make certain other changes thereto, the City desires to amend and restate the Amended and Restated Subordinated Bond Resolution in the manner set forth herein, which amendment and restatement the City hereby determines requires

the written consent of the holders of not less than a majority in principal amount of the Subordinated Bonds Outstanding as provided in said Section 11.02 of the Amended and Restated Subordinated Bond Resolution;

NOW, THEREFORE, BE IT RESOLVED by the City Commission of the City of Gainesville, Florida that in the event that written consents to the amendment and restatement of the Amended and Restated Subordinated Bond Resolution as provided herein of the holders of not less than a majority in principal amount of the Subordinated Bonds then Outstanding shall be filed with the City in the manner provided in Section 11.03 of the Amended and Restated Subordinated Bond Resolution, then on the date on which the conditions set forth in Section 11.03 of the Amended and Restated Subordinated Bond Resolution with respect thereto shall be satisfied (the "Effective Date"), the Amended and Restated Subordinated Bond Resolution shall be amended and restated to read in its entirety as set forth herein.

ARTICLE I
DEFINITIONS AND STATUTORY AUTHORITY

SECTION 1.01. Supplemental Resolution. This Second Amended and Restated Subordinated Utilities System Revenue Bond Resolution is supplemental to the Bond Resolution.

SECTION 1.02. Definitions. Except as otherwise defined herein, all terms which are defined in Section 101 of the Resolution shall have the same meanings, respectively, herein as such terms are given in said Section 101. The terms defined in this Section (except as herein otherwise expressly provided or unless the context otherwise requires) for all purposes of this resolution shall have the respective meanings specified in this Section.

Accreted Value:

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

Adjusted Aggregate Subordinated Debt Service:

The term "Adjusted Aggregate Subordinated Debt Service" for any period shall mean, as of any date of calculation, the Aggregate Subordinated Debt Service for such period except that (a) if any Refundable Subordinated Principal Installment for any Series of Subordinated Bonds is included in Aggregate Subordinated Debt Service for such period, Adjusted Aggregate Subordinated Debt Service shall mean Aggregate Subordinated Debt Service determined (i) in the case of Refundable Subordinated Principal Installments with respect to Subordinated Bonds other than Commercial Paper Notes and Medium-Term Notes, as if each such Refundable Subordinated Principal Installment had been payable, over a period extending from the due date of such Subordinated Principal Installment through the later of (x) the 30th anniversary of the issuance of such Series of Subordinated Bonds or (y) the 10th anniversary of the due date of such Refundable Subordinated Principal Installment, in installments which would have required equal annual payments of principal and interest over such period and (ii) in the case of Refundable Subordinated Principal Installments with respect to Commercial Paper Notes or Medium-Term Notes, in accordance with the then current Commercial Paper Payment Plan or Medium-Term Note Payment Plan, as applicable, with respect thereto and (b) the principal and interest portions of the Accreted Value of Capital Appreciation Subordinated Bonds or the Appreciated Value of Deferred Income Subordinated Bonds shall be included in the calculation of Adjusted Aggregate Subordinated Debt Service at the times and in the manner provided in paragraph 1 of Section 2.06 hereof. Interest deemed payable in accordance with the foregoing in any Fiscal Year after the actual due date of any Refundable Subordinated Principal Installment of any Series of Subordinated Bonds shall be calculated at such rate of interest as the City, or a banking or financial institution selected by the City, determines would be a reasonable estimate of the rate of interest that would be borne on Subordinated Bonds maturing at the times determined in accordance with the provisions of the preceding sentence.

Aggregate Subordinated Debt Service:

The term "Aggregate Subordinated Debt Service", for any period shall mean, as of any date of calculation, except as otherwise provided in the definition of Subordinated Debt Service, the sum of the amounts of Subordinated Debt Service for such period with respect to all Series of Subordinated Bonds; *provided, however*, that, except as otherwise provided herein, (a) for purposes of estimating Aggregate Subordinated Debt Service for any future period (X) any Variable Rate Subordinated Bonds, Commercial Paper Notes or Medium-Term Notes Outstanding during such period, the Subordinated Debt Service on which is not the subject of a Qualified Hedging Contract, shall be assumed to bear interest during such period at the greater of (1) the actual rate of interest then borne by such Variable Rate Subordinated Bonds, Commercial Paper Notes or Medium-Term Notes, as applicable or (2) the Certified Interest Rate applicable thereto and (Y) any Option Subordinated Bonds Outstanding during such period shall be assumed to mature on the stated maturity date thereof and (b) the principal and interest portions of the Accreted Value of Capital Appreciation Subordinated Bonds or the Appreciated Value of Deferred Income Subordinated Bonds shall be included in the calculation of Aggregate Subordinated Debt Service at the times and in the manner provided in paragraph 1 of Section 2.06 hereof.

Appreciated Value:

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

Authenticating Agent:

The term "Authenticating Agent" shall mean an officer of the City, a transfer agent duly registered pursuant to the Securities Exchange Act of 1934, as amended, or a bank or trust company or national banking association at the time appointed by the Subordinated Bond Registrar as its agent to authenticate Commercial Paper Notes or Medium-Term Notes.

Bearer Commercial Paper Note:

The term "Bearer Commercial Paper Note" shall mean any Commercial Paper Note that, in accordance with the Supplemental Subordinated Resolution authorizing the Series of which such Commercial Paper Note is a part, is issued in bearer form, not registrable as to principal or face amount.

Book Entry Subordinated Bond:

The term "Book Entry Subordinated Bond" shall mean a Subordinated Bond authorized to be issued to, and issued to and, except as provided in paragraph 4 of Section 3.09, restricted to being registered in the name of, a Securities Depository for the participants in such Securities Depository or the beneficial owners of such Subordinated Bond.

Capital Appreciation Subordinated Bonds:

The term "Capital Appreciation Subordinated Bonds" shall mean any Subordinated Bonds issued under this Subordinated Resolution as to which interest is (i) compounded periodically on dates that are specified in the Supplemental Subordinated Resolution authorizing such Capital

Appreciation Subordinated Bonds and (ii) payable only at the maturity, earlier redemption or other payment thereof pursuant to this Subordinated Resolution or the Supplemental Subordinated Resolution authorizing such Capital Appreciation Subordinated Bonds. Capital Appreciation Subordinated Bonds are not Deferred Income Subordinated Bonds for purposes of this Resolution.

Certified Interest Rate:

The term "Certified Interest Rate" shall mean, with respect to Commercial Paper Notes, Medium-Term Notes or the Variable Rate Subordinated Bonds of a particular Series maturing on a particular date, the interest rate set forth in a certificate of an Authorized Officer of the City executed on or prior to the date of the initial issuance of such Commercial Paper Notes, Medium-Term Notes or Variable Rate Subordinated Bonds of such Series, as the case may be, which interest rate shall be (i) in the case of Variable Rate Subordinated Bonds, the rate of interest such Variable Rate Subordinated Bonds would bear (based on the Bond Buyer Revenue Bond Index if the interest on such Bonds is or is expected to be excludable from the gross income of the holder thereof for federal income tax purposes and if not, then such other comparable index reasonably selected by the City) if, assuming the same maturity date, terms and provisions (other than interest rate) as the proposed Variable Rate Subordinated Bonds of such maturity, and on the basis of the City's credit ratings with respect to the Subordinated Bonds (other than the credit enhanced rating on Subordinated Bonds for which Credit Enhancement is provided by a third party), such proposed Variable Rate Subordinated Bonds of such maturity were issued at a fixed interest rate or (ii) in the case of Commercial Paper Notes or Medium-Term Notes, the rate of interest such Commercial Paper Notes or Medium-Term Notes would bear (based on the Bond Buyer Revenue Bond Index) if such Notes were issued as Subordinated Bonds bearing a fixed interest rate and maturing as provided in the Commercial Paper Payment Plan or Medium Term Note Payment Plan, as applicable. If at such time of issuance of such Commercial Paper Notes, Medium-Term Notes or Variable Rate Subordinated Bonds of a particular Series, the Bond Buyer Revenue Bond Index is no longer published, the City shall use a comparable published index accepted by the municipal bond market. Such determinations shall be conclusive absent manifest error.

Commercial Paper Note:

The term "Commercial Paper Note" shall mean any Subordinated Bond which (a) has a maturity date which is not more than 397 days after the date of issuance thereof and (b) is designated as a Commercial Paper Note in the Supplemental Subordinated Resolution authorizing such Subordinated Bond, but shall not include any "Commercial Paper Note," as such term is defined in the Resolution.

Commercial Paper Payment Plan:

The term "Commercial Paper Payment Plan" shall mean, with respect to any Series of Commercial Paper Notes and as of any time, the then current Commercial Paper Payment Plan for such notes contained in a certificate of an Authorized Officer of the City delivered pursuant to Section 2.02 hereof and setting forth the sources of funds expected to be utilized by the City to pay the principal of and interest on such Commercial Paper Notes or any subsequent certificate of an Authorized Officer of the City thereafter executed to reflect changes, if any, in the expectations of the City with respect to the sources of funds to be utilized to pay principal of and interest on such Commercial Paper Notes; *provided, however,* that if any Commercial Paper Payment Plan

provides for the refunding of any Commercial Paper Note with proceeds of Debt Securities that the City intends to pay from Revenues, the principal of such Commercial Paper Note shall, for purposes of the Commercial Paper Payment Plan, be assumed to come due over a period commencing with the due date of the Commercial Paper Note and ending not later than the later of (x) the 30th anniversary of the first issuance of Commercial Paper Notes of such Series treating each original issuance tranche of a Commercial Paper Note as a Series, or (y) the 10th anniversary of the due date of the Commercial Paper Note to be refunded, in installments such that the principal and interest payable on such Commercial Paper Note in each Fiscal Year in such period will be equal to the principal and interest payable on such Commercial Paper Note in each other Fiscal Year in such period.

Credit Enhancement:

The term "Credit Enhancement" shall mean, with respect to the Bonds of a Series or a maturity within a Series, the Subordinated Bonds of a Series or a maturity within a Series, or the Parity Subordinated Indebtedness of an issue or a maturity within an issue, the issuance of an insurance policy, letter of credit, surety bond or any other similar obligation, whereby the issuer thereof becomes conditionally or unconditionally obligated to acquire or pay when due, to the extent not paid by the City or otherwise, such Subordinated Bonds or Parity Subordinated Indebtedness, as the case may be, or the principal of and/or interest thereon, which may include credit enhancement or liquidity enhancement.

Credit Enhancer:

The term "Credit Enhancer" shall mean any person or entity which, pursuant to a Supplemental Subordinated Resolution, is designated as a Credit Enhancer and which provides Credit Enhancement.

Current Interest Commencement Date:

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

Debt Securities:

The term "Debt Securities" shall mean the Bonds, the Subordinated Bonds and all Parity Subordinated Indebtedness.

Defaulted Subordinated Interest:

The term "Defaulted Subordinated Interest" shall have the meaning given to such term in Section 3.08.

Deferred Income Subordinated Bonds:

The term "Deferred Income Subordinated Bonds" shall mean any Subordinated Bonds issued under this Subordinated Resolution as to which interest accruing prior to the Current Interest Commencement Date is (i) compounded periodically on dates specified in the Supplemental Subordinated Resolution authorizing such Deferred Income Subordinated Bonds and (ii) payable only at the maturity, earlier redemption or other payment date thereof pursuant to this Subordinated Resolution or the Supplemental Subordinated Resolution authorizing such Deferred Income Subordinated Bonds. Deferred Income Subordinated Bonds are not Capital Appreciation Bonds for purposes of this Resolution.

Escrow Agent:

The term "Escrow Agent" shall mean, with respect to the refunding of any particular Debt Securities at any one time as a result of the issuance of Subordinated Bonds, the entity with which moneys or investments shall be deposited in trust for the holders of such Debt Securities to be refunded, and who shall agree, through an appropriate agreement with the City, to perform the duties of Escrow Agent with respect to such Debt Securities as provided in the Resolution, the Subordinated Resolution or the Supplemental Resolution, as the case may be, authorizing such Debt Securities.

Event of Default:

The term "Event of Default", when used with respect to the Subordinated Bonds, shall mean any event specified as such in Section 801 of the Resolution and any other event specified as such in Section 8.01 hereof.

Holder:

The term "Holder", when used with respect to Bonds, shall have the meaning given to the term "Bondholder" in the Resolution and, when used with respect to Subordinated Bonds, shall mean (i) any person who shall be the registered owner of any Subordinated Bond or Subordinated Bonds other than Bearer Commercial Paper Notes and (ii) any person who shall be the bearer of any Bearer Commercial Paper Note or Notes.

Maximum Aggregate Debt Service:

The term "Maximum Aggregate Debt Service" shall mean as of any particular date of calculation, the highest Adjusted Aggregate Debt Service, Adjusted Aggregate Subordinated Debt Service and/ or Parity Subordinated Indebtedness Debt Service, as applicable, in each case for the then current or any future Fiscal Year, as the case may be, with respect to the particular Series of Bonds, Subordinated Bonds or Parity Subordinated Indebtedness or all Bonds, Subordinated Bonds or Parity Subordinated Indebtedness, as the case may be.

Medium-Term Note:

The term "Medium-Term Note" shall mean any Subordinated Bond which (a) has a maturity date which is more than 365 days, but not more than 15 years, after the date of issuance thereof and (b) is designated as a Medium-Term Note in the Supplemental Subordinated

Resolution authorizing such Subordinated Bond, but shall not include any "Medium-Term Note," as such term is defined in the Resolution.

Medium-Term Note Payment Plan:

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

Option Subordinated Bonds:

The term "Option Subordinated Bonds" shall mean Subordinated Bonds which by their terms may be tendered by and at the option of the Holder thereof for payment prior to the stated maturity thereof, or the maturities of which may be extended by and at the option of the Holder thereof.

Original Subordinated Resolution:

The term "Original Subordinated Resolution" shall mean the Amended and Restated Subordinated Utilities System Revenue Bond Resolution adopted by the City on December 8, 2003, as amended and supplemented prior to the adoption of this Second Amended and Restated Subordinated Utilities System Revenue Bond Resolution.

Outstanding:

The term "Outstanding", when used with respect to Bonds, shall have the meaning given to such term in the Resolution and, when used with respect to Subordinated Bonds, shall mean, as of any particular time, all Subordinated Bonds theretofore or thereupon being authenticated and delivered under the Subordinated Resolution except:

(a) Subordinated Bonds (or portions of Subordinated Bonds) theretofore cancelled by the Subordinated Bond Registrar at or prior to such date;

(b) Subordinated Bonds (or portions of Subordinated Bonds) for the payment or redemption of which moneys, equal to the principal amount or Redemption Price

thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held in trust in accordance with Section 12.01 and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Subordinated Bonds (or portions of Subordinated Bonds) are to be redeemed, notice of such redemption shall have been given as provided in Article IV or in the Supplemental Subordinated Resolution authorizing the Series to which such Subordinated Bonds belong or provision shall have been made for the giving of such notice;

(c) Subordinated Bonds in lieu of or in substitution for which other Subordinated Bonds shall have been authenticated and delivered pursuant to the terms of Article III or Section 4.05 or Section 11.06 hereof and the Supplemental Subordinated Resolution authorizing the Series to which such Subordinated Bonds belong unless proof satisfactory to the City is presented that any such Subordinated Bonds are held by a bona fide purchaser in due course; and

(d) Subordinated Bonds (or portions of Subordinated Bonds) deemed to have been paid as provided in paragraph 2 of Section 12.01 hereof or in the Supplemental Subordinated Resolution authorizing the Series to which such Subordinated Bonds belong.

Parity Subordinated Indebtedness:

The term "Parity Subordinated Indebtedness" shall mean all Subordinated Indebtedness issued in accordance with the provisions of Section 512 of the Resolution, other than the Subordinated Bonds, that ranks on a parity with the Subordinated Bonds as to the pledge for the payment of which from the Subordinated Indebtedness Fund, including the funds, moneys and securities contained therein.

Parity Subordinated Indebtedness Debt Service:

The term "Parity Subordinated Indebtedness Debt Service" for any Fiscal Year shall mean, as of any date of calculation and with respect to all issues of Parity Subordinated Indebtedness, an amount equal to the sum of the principal and interest due in such Fiscal Year on the Parity Subordinated Indebtedness at the time outstanding; *provided, however*, that if any such Parity Subordinated Indebtedness shall be Refundable Parity Subordinated Indebtedness, then, for purposes of the computation of Parity Subordinated Indebtedness Debt Service, the principal and interest due in such Fiscal Year on such Refundable Parity Subordinated Indebtedness shall be determined in accordance with the then current Refundable Parity Subordinated Indebtedness Payment Plan therefor. Interest deemed payable in accordance with the foregoing in any Fiscal Year after the actual due date of any Refundable Parity Subordinated Indebtedness shall be calculated at such rate of interest as the City, or a banking or financial institution selected by the City, determines would be a reasonable estimate of the rate of interest that would be borne on Subordinated Bonds maturing at the times determined in accordance with the provisions of the Refundable Parity Subordinated Indebtedness Payment Plan relating to the refunding of such Refundable Parity Subordinated Indebtedness. If any Parity Subordinated Indebtedness shall bear interest at a variable rate (including, for this purpose, Parity Subordinated Indebtedness issued in the form of commercial paper notes or medium-term notes), for purposes of the calculation of Parity Subordinated Indebtedness Debt Service, such Parity Subordinated Indebtedness shall be

deemed to bear interest at a rate determined in the same manner as is set forth in the definition of "Certified Interest Rate" herein.

Qualified Hedging Contract:

The term "Qualified Hedging Contract", when used in this Subordinated Resolution, shall have the meaning assigned thereto in Section 101 of the Resolution, except that clause (iii) thereof shall read as follows: "(iii) which has been designated in a certificate of an Authorized Officer of the City filed with the records of the City as a Qualified Hedging Contract (which certificate shall specify, in the case of a Qualified Hedging Contract that is entered into in connection with any Subordinated Bonds, the Subordinated Bonds with respect to which such Qualified Hedging Contract is entered into)."

Qualified Hedging Contract Provider:

The term "Qualified Hedging Contract Provider", when used in this Subordinated Resolution, shall have the meaning assigned thereto in Section 101 of the Resolution, except that the references therein to the "Bonds" shall be deemed to be references to the Subordinated Bonds.

Redemption Price:

The term "Redemption Price", when used with respect to any Subordinated Bond, shall mean the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to such Subordinated Bond or the Supplemental Subordinated Resolution authorizing such Subordinated Bond.

Refundable Parity Subordinated Indebtedness:

The term "Refundable Parity Subordinated Indebtedness" shall mean any issue of Parity Subordinated Indebtedness in the form of commercial paper notes, medium-term notes or other obligations which the City intends to pay with moneys which are not Revenues.

Refundable Parity Subordinated Indebtedness Payment Plan:

The term "Refundable Parity Subordinated Indebtedness Payment Plan" shall mean, with respect to any issue of Refundable Parity Subordinated Indebtedness and as of any time, the then current Refundable Parity Subordinated Indebtedness Payment Plan for such Refundable Parity Subordinated Indebtedness contained in a certificate of an Authorized Officer of the City setting forth the sources of funds expected to be utilized by the City to pay the principal of and interest on such Refundable Parity Subordinated Indebtedness; *provided, however*, that if any Refundable Parity Subordinated Indebtedness Payment Plan provides for the refunding of any Refundable Parity Subordinated Indebtedness with proceeds of Debt Securities that the City intends to pay from Revenues, the principal of such Refundable Parity Subordinated Indebtedness shall, for purposes of the Refundable Parity Subordinated Indebtedness Payment Plan, be assumed to come due over a period commencing with the due date of such Refundable Parity Subordinated Indebtedness and ending not later than the later of (x) the 30th anniversary of the first issuance of Refundable Parity Subordinated Indebtedness of such issue or (y) the 10th anniversary of the due date of the Refundable Parity Subordinated Indebtedness to be refunded, in installments such that the principal and interest payable on such Refundable Parity Subordinated Indebtedness in each

Fiscal Year in such period will be equal to the principal and interest payable on such Refundable Parity Subordinated Indebtedness in each other Fiscal Year in such period.

Refundable Subordinated Principal Installment:

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

Refunding Subordinated Bonds:

The term "Refunding Subordinated Bonds" shall mean all Subordinated Bonds issued pursuant to Section 2.04, whether issued in one or more Series, and any Subordinated Bonds thereafter authenticated and delivered in lieu of or in substitution for such Subordinated Bonds pursuant to Article III or Section 4.05 or Section 11.06 hereof and the Supplemental Subordinated Resolution authorizing such Refunding Subordinated Bonds.

Regular Record Date:

The term "Regular Record Date", when used with respect to the Subordinated Bonds, shall have the meaning given to such term in Section 3.08.

Resolution:

The term "Resolution" or "Bond Resolution" shall mean the Second Amended and Restated Utilities System Revenue Bond Resolution, as amended or supplemented by Supplemental Resolutions in accordance with the provisions thereof.

Securities Depository:

The term "Securities Depository" shall mean, with respect to a Book Entry Subordinated Bond, the Depository Trust Company or the person, firm, association or corporation specified in the Supplemental Subordinated Resolution authorizing the Subordinated Bonds of the Series of which such Book Entry Subordinated Bond is a part to serve as the securities depository for such

Book Entry Subordinated Bond, or its nominee, and its successor or successors and any other person, firm, association or corporation which may at any time be substituted in its place pursuant to the Subordinated Resolution or such Supplemental Subordinated Resolution.

Series:

The term "Series", when used with respect to the Subordinated Bonds, shall mean all of the Subordinated Bonds identified pursuant to the Supplemental Subordinated Resolution authorizing such Subordinated Bonds as a separate Series of Subordinated Bonds, or any Subordinated Bonds thereafter authenticated and delivered in lieu of or in substitution for such Subordinated Bonds pursuant to Article III or Section 4.05 or Section 11.06 hereof and the Supplemental Subordinated Resolution authorizing such Subordinated Bonds, regardless of variations in maturity, interest rate, Sinking Fund Installments, or other provisions.

Sinking Fund Installment:

The term "Sinking Fund Installment", when used with respect to the Subordinated Bonds, shall mean an amount so designated which is established pursuant to the Supplemental Subordinated Resolution authorizing the Series of Subordinated Bonds to which such Sinking Fund Installment relates.

Special Record Date:

The term "Special Record Date", when used with respect to the Subordinated Bonds, shall have the meaning given to such term in Section 3.08.

Special Subordinated Bonds:

The term "Special Subordinated Bonds" shall mean all Subordinated Bonds issued pursuant to Section 2.05, whether issued in one or more Series, and any Subordinated Bonds thereafter authenticated and delivered in lieu of or in substitution for such Subordinated Bonds pursuant to Article III or Section 4.05 or Section 11.06 hereof and the Supplemental Subordinated Resolution authorizing such Special Subordinated Bonds.

Subordinated Bond Construction Account:

The term "Subordinated Bond Construction Account" shall mean a Subordinated Bond Construction Account which may be established in accordance with Section 5.03 hereof.

Subordinated Bond Fiduciary or Fiduciaries:

The terms "Subordinated Bond Fiduciary" or "Subordinated Bond Fiduciaries" shall mean the Trustee, the Subordinated Bond Registrar, the Subordinated Bond Paying Agents, any Escrow Agent in respect of the refunding of Subordinated Bonds, the Authenticating Agent and the Depositaries at which any Subordinated Bond Construction Account and any Subordinated Bond Payment Account are held, or any or all of them, as may be appropriate.

Subordinated Bond Paying Agent:

The term "Subordinated Bond Paying Agent" shall mean an officer of the City, a transfer agent duly registered pursuant to the Securities Exchange Act of 1934, as amended, or any bank or trust company organized under the laws of any state of the United States or any national banking association designated as Subordinated Bond Paying Agent for the Subordinated Bonds of any Series, and its successor or successors hereafter appointed in the manner provided in the Subordinated Resolution.

Subordinated Bond Payment Account:

The term "Subordinated Bond Payment Account" shall mean, with respect to any Series of Subordinated Bonds for which a Subordinated Bond Payment Account is established pursuant to a Supplemental Subordinated Resolution, the Subordinated Bond Payment Account so established.

Subordinated Bond Registrar:

The term "Subordinated Bond Registrar" shall mean the officer of the City, such transfer agent duly registered pursuant to the Securities Exchange Act of 1934, as amended, or such bank or trust company organized under the laws of any state or national banking association, located within or without the State of Florida, qualified to act in the capacity of Subordinated Bond Registrar as set forth in Section 7.03 appointed by the City to perform the duties of Subordinated Bond Registrar enumerated in such Section.

Subordinated Bonds:

The term "Subordinated Bonds" shall mean any bonds, notes or other evidences of indebtedness, as the case may be, authenticated and delivered under and Outstanding pursuant to the Subordinated Resolution, which shall constitute "Subordinated Indebtedness", and shall not constitute "Bonds", for purposes of the Resolution.

Subordinated Debt Service:

The term "Subordinated Debt Service" for any period shall mean, as of any date of calculation and with respect to any Series of Subordinated Bonds, an amount equal to the sum of (i) interest accruing during such period on the Subordinated Bonds of such Series, except to the extent that such interest is to be paid from the proceeds of Debt Securities or other Subordinated Indebtedness, and/or earnings thereon and (ii) that portion of each Subordinated Principal Installment for such Series which would accrue during such period if such Subordinated Principal Installment were deemed to accrue daily in equal amounts from the next preceding Subordinated Principal Installment due date for such Series (or, (x) in the case of Subordinated Bonds other than Special Subordinated Bonds, if (1) there shall be no such preceding Subordinated Principal Installment due date or (2) such preceding Subordinated Principal Installment due date is more than one year prior to the due date of such Subordinated Principal Installment, then, from a date one year preceding the due date of such Subordinated Principal Installment or from the date of issuance of the Subordinated Bonds of such Series, whichever date is later, and (y) in the case of Special Subordinated Bonds, in accordance with the terms thereof and the Supplemental Subordinated Resolution authorizing such Special Subordinated Bonds), except to the extent that such Subordinated Principal Installment is paid or to be paid from the proceeds of Debt Securities

or other Subordinated Indebtedness, and/or earnings thereon. Such interest and Subordinated Principal Installments for such Series shall be calculated on the assumption that (x) no Subordinated Bonds (except for Option Subordinated Bonds actually tendered for payment prior to the stated maturity thereof and paid, or to be paid, from Revenues) of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Subordinated Principal Installment on the due date thereof, (y) the principal amount of Option Subordinated Bonds tendered for payment before the stated maturity thereof, and paid, or to be paid, from Revenues, shall be deemed to accrue on the date required to be paid pursuant to such tender and (z) the principal and interest portions of the Accreted Value of Capital Appreciation Subordinated Bonds or the Appreciated Value of Deferred Income Subordinated Bonds shall be included in the calculation of Subordinated Debt Service at the times and in the manner provided in paragraph 1 of Section 2.06 hereof. If the City has, in connection with any Series of Subordinated Bonds, entered into a Qualified Hedging Contract which provides that, in respect of a notional amount equal to or less than the Outstanding principal amount of such Subordinated Bonds, the City is to pay to a Qualified Hedging Contract Provider an amount determined based upon a variable rate of interest and the Qualified Hedging Contract Provider is to pay to the City an amount determined based upon a fixed rate of interest equal to the rate or rates at which such Bonds bear interest, it will be assumed that such Subordinated Bonds or portion thereof equal to such notional amounts bear interest at the variable rate of interest to be paid by the City under the Qualified Hedging Contract. If the City has in connection with any Variable Rate Subordinated Bonds, Commercial Paper Notes or Medium-Term Notes entered into a Qualified Hedging Contract which provides that, in respect of a notional amount equal to or less than the Outstanding principal amount of the Variable Rate Subordinated Bonds, Commercial Paper Notes or Medium-Term Notes, the City is to pay to a Qualified Hedging Contract Provider an amount determined based upon a fixed rate of interest and the Qualified Hedging Contract Provider is to pay to the City an amount determined based upon a variable rate of interest equal or comparable to the rate at which such Variable Rate Subordinated Bonds, Commercial Paper Notes or Medium-Term Notes bear interest, it will be assumed that such Variable Rate Subordinated Bonds, Commercial Paper Notes or Medium-Term Notes or portions thereof equal to such notional amount, bear interest at the fixed rate of interest to be paid by the City under the Qualified Hedging Contract.

Subordinated Indebtedness:

The term "Subordinated Indebtedness" shall have the meaning assigned thereto in the Resolution.

Subordinated Indebtedness Fund:

The term "Subordinated Indebtedness Fund" shall mean the Subordinated Indebtedness Fund established in Section 502 of the Resolution.

Subordinated Principal Installment:

The term "Subordinated Principal Installment" shall mean, as of any date of calculation and with respect to any Series, so long as any Subordinated Bonds thereof are Outstanding, (i) the principal amount of Subordinated Bonds (including the principal amount of any Option Subordinated Bonds tendered for payment prior to the stated maturity thereof and paid, or to be paid, from Revenues) of such Series due (or so tendered for payment and paid, or to be so paid)

on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance (determined as provided in Section 5.06) of any Sinking Fund Installments due on a certain future date for Subordinated Bonds of such Series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bonds on such future date in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments, or (iii) if such future dates coincide as to different Subordinated Bonds of such Series, the sum of such principal amount of Subordinated Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

Subordinated Resolution:

The term "Subordinated Resolution" shall mean the Amended and Restated Subordinated Bond Resolution as heretofore supplemented, as amended and restated by this Second Amended and Restated Subordinated Utilities System Revenue Bond Resolution and as from time to time further amended or supplemented by Supplemental Subordinated Resolutions in accordance with the terms of the Resolution and the terms hereof. This Second Amended and Restated Subordinated Utilities System Revenue Bond Resolution shall constitute a "Supplemental Resolution" within the meaning of the Resolution and a "Supplemental Subordinated Resolution" within the meaning of the Original Subordinated Resolution.

Supplemental Subordinated Resolution:

The term "Supplemental Subordinated Resolution" shall mean any resolution supplemental to this Subordinated Resolution adopted by the City in accordance with Article X of the Resolution and Article X hereof.

Variable Rate Debt Security:

The term "Variable Rate Debt Security" shall mean any Debt Security not bearing interest throughout its term at a specified rate or specified rates determined at the time of initial issuance of such Debt Security.

Variable Rate Subordinated Bond:

The term "Variable Rate Subordinated Bond" shall mean any Subordinated Bond not bearing interest throughout its term at a specified rate or specified rates determined at the time of initial issuance of such Subordinated Bond.

Except where the context otherwise requires, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations, corporations, districts, agencies and bodies.

All references in the Subordinated Resolution to Articles, Sections, and other subdivisions are to the corresponding Articles, Sections or subdivisions of the Subordinated Resolution, and the words herein, hereof, hereunder and other words of similar import refer to the Subordinated Resolution as a whole and not to any particular Article, Section or subdivision of the Subordinated Resolution. The headings or titles of the several Articles and Sections of the Subordinated Resolution, and any Table of Contents appended to copies of the Subordinated Resolution, shall

be solely for convenience of reference and shall not affect the meaning, construction or effect of the Subordinated Resolution.

SECTION 1.03. Authority for this Second Amended and Restated Subordinated Utilities System Revenue Bond Resolution. This Second Amended and Restated Subordinated Utilities System Revenue Bond Resolution is adopted (i) pursuant to the provisions of the Act, (ii) in accordance with paragraph 7 of Section 1001 of the Resolution and (iii) in accordance with Section 11.03 of the Original Subordinated Resolution.

SECTION 1.04. Resolution to Constitute Contract. In consideration of the purchase and acceptance of any and all of the Subordinated Bonds authorized to be issued hereunder by those who shall hold the same from time to time, the Subordinated Resolution shall be deemed to be and shall constitute a contract between the City and the Holders from time to time of the Subordinated Bonds; and the security interest granted and the pledge and assignment made in the Subordinated Resolution and the covenants and agreements therein set forth to be performed on behalf of the City shall, except as expressly set forth in the Subordinated Resolution or in a Supplemental Subordinated Resolution, be for the equal benefit, protection and security of the Holders of any and all of the Subordinated Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, shall be of equal rank without preference, priority or distinction of any of the Subordinated Bonds over any other thereof except as expressly provided in or permitted by the Subordinated Resolution.

ARTICLE II
AUTHORIZATION AND ISSUANCE OF SUBORDINATED BONDS

SECTION 2.01. Authorization of Subordinated Bonds. 1. There is hereby authorized Subordinated Bonds under the Subordinated Resolution which shall be issued from time to time in one or more Series. The Subordinated Bonds of each Series may be issued at one time or from time to time in such manner as shall be determined by the City in the Supplemental Subordinated Resolution authorizing the Subordinated Bonds of such Series. Subject to compliance with applicable law and conditions specified in the Resolution for the issuance of Subordinated Indebtedness, the aggregate principal amount of the Subordinated Bonds which may be executed, authenticated and delivered under the Subordinated Resolution is not limited except as may hereafter be provided in the Subordinated Resolution or as may be limited by law. The Subordinated Bonds shall constitute "Subordinated Indebtedness", and shall not constitute "Bonds", for purposes of the Resolution.

2. Nothing in the Subordinated Resolution shall be deemed to preclude or restrict the consolidation into a single Series for purposes of issuance and sale of Subordinated Bonds otherwise permitted by the Subordinated Resolution to be issued at the same time in two or more separate Series, provided that solely for the purpose of satisfying the requirements of Section 2.02, Section 2.03, Section 2.04 or Section 2.05, as the case may be, the Subordinated Bonds otherwise permitted by the Subordinated Resolution to be issued as a separate Series shall be considered separately as if such Subordinated Bonds were to be issued as a separate Series. In the event that separate Series are combined for purposes of issuance and sale, they may be issued under a single Supplemental Subordinated Resolution notwithstanding any other provision of the Subordinated Resolution.

SECTION 2.02. General Provisions for Issuance of Subordinated Bonds. When authorized by a Supplemental Subordinated Resolution, the City shall execute Subordinated Bonds of a Series for issuance under the Subordinated Resolution from time to time and deliver such Subordinated Bonds to the Subordinated Bond Registrar or the Authenticating Agent for completion, authentication and delivery. The Subordinated Bond Registrar or its agent or the Authenticating Agent, as appropriate, shall authenticate and deliver such Subordinated Bonds to the City or upon its order, but only upon satisfaction by the City, on or prior to the date of the issuance of the first Subordinated Bonds of such Series to be issued, of the conditions specified in Article X of the Resolution, in Article X of the Subordinated Resolution and in the Supplemental Subordinated Resolution authorizing such Subordinated Bonds and upon satisfaction by the City of the following conditions:

(1) Adoption of a Supplemental Subordinated Resolution authorizing such Series of Subordinated Bonds, which Supplemental Subordinated Resolution shall specify such terms and conditions relating to the Subordinated Bonds of such Series, and such other matters relative thereto, as the City may determine;

(2) Receipt of an Opinion of Counsel of recognized standing in the field of law relating to municipal bonds to the effect that (i) the City has the right and power under the Act as amended to the date of such Opinion to adopt the Resolution, and the Resolution has been duly and lawfully adopted by the City, is in full force and effect and is valid and binding upon the City in accordance with its terms, and no other authorization for the Resolution is required; (ii) the Subordinated Resolution creates the valid pledge which it purports to create of the Subordinated Indebtedness Fund and investments, if any, thereof, and if a Subordinated Bond Construction Account and/or a Subordinated Bond Payment Account shall be established for, and pledged to, the Subordinated Bonds of such Series, of such Subordinated Bond Construction Account and/or such Subordinated Bond Payment Account, in the manner provided in the Subordinated Resolution, in each case, subject to the application thereof for the purposes and on the conditions permitted by the Resolution and the Subordinated Resolution and subject to (A) the pledge thereof created under the Resolution as security for the Bonds, (B) any pledge thereof created as security for any Parity Hedging Contract Obligations and (C) any pledge thereof created as security for Parity Subordinated Indebtedness; and (iii) the Subordinated Bonds of such Series are (or, if less than all of the Subordinated Bonds of such Series are to be issued on the date of first issuance of such Bonds, that the Subordinated Bonds of such Series not to be so issued on such date, when duly executed, authenticated and delivered, will be) valid and binding obligations of the City as provided in the Subordinated Resolution, and entitled to the benefits of the Subordinated Resolution and of the Act as amended to the date of such Opinion, and such Subordinated Bonds have been duly and validly authorized and have been (or, when duly executed, authenticated and delivered, will be) issued in accordance with law, including the Act as amended to the date of such Opinion, and in accordance with the Subordinated Resolution, and setting forth such other matters as may be specified in the Supplemental Subordinated Resolution authorizing the Subordinated Bonds of such Series. Such opinion may take exception for limitations imposed by or resulting from bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally and may state that no opinion is being rendered as to the availability of any particular remedy. No opinion need be expressed as to the priority of the pledge and assignment created by the Subordinated Resolution over the rights of other persons in the

Subordinated Indebtedness Fund and, if applicable, the Subordinated Bond Construction Account and/or the Subordinated Bond Payment Account established for the Subordinated Bonds of such Series, and investments, if any, thereof and such other customarily accepted exceptions and reliance provisions. The opinion may be limited to this Subordinated Resolution, as amended, and the Supplemental Resolution applicable to the proposed Subordinated Bonds;

(3) Except in the case of any Series of Refunding Bonds, an Authorized Officer of the City shall execute a certificate stating that either (a) no Event of Default has occurred and is continuing under the Resolution or the Subordinated Resolution or (b) the application of the proceeds of the sale of such Series of Subordinated Bonds as required by the Supplemental Subordinated Resolution authorizing such Series will cure any such Event of Default;

(4) Except in the case of any Series of Refunding Subordinated Bonds and any Series of Special Subordinated Bonds, 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 (i) all Bonds then Outstanding under the Bond Resolution, (ii) all Subordinated Bonds then Outstanding under the Subordinated Resolution and the additional Subordinated Bonds proposed to be issued hereunder, and (iii) the Parity Subordinated Indebtedness Debt Service on all Parity Subordinated Indebtedness then outstanding.

(d) The amount, if any, required to be deposited from Revenues into the Debt Service Reserve Account pursuant to Section 505 of the 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.

(5) The City may deliver, in the case of each Series of Subordinated Bonds any portion of the proceeds of which is to be deposited in the Subordinated Indebtedness Fund or in the Subordinated Bond Payment Account, if any, established therefor for the payment of interest on Subordinated Bonds, an Authorized Officer of the City shall execute a certificate setting forth the then estimated application of such proceeds so deposited for the payment of interest on any particular Subordinated Bonds, whether or not such Subordinated Bonds are then Outstanding, or then being issued, or to be issued thereafter. Such certificate may be amended from time to time by a new certificate of an Authorized

Officer of the City and, in such event, the proceeds so deposited (or any remaining portion thereof) shall be applied as provided in such new certificate;

(6) In the case of a Series of Commercial Paper Notes, an Authorized Officer of the City shall execute a certificate setting forth the Commercial Paper Payment Plan with respect to such Commercial Paper Notes. Such certificate shall be amended from time to time by a new certificate of an Authorized Officer of the City to reflect changes, if any, in the expectations of the City with respect to the sources of funds to be utilized to pay principal of and interest on such Commercial Paper Notes;

(7) In the case of a Series of Medium-Term Notes, an Authorized Officer of the City shall execute a certificate setting forth the Medium-Term Note Payment Plan with respect to such Medium-Term Notes. Such certificate shall be amended from time to time by a new certificate of an Authorized Officer of the City to reflect changes, if any, in the expectations of the City with respect to the sources of funds to be utilized to pay principal of and interest on such Medium-Term Notes; and

(8) Such further documents, moneys and securities as are required by the provisions of Section 2.04 or Article X of the Subordinated Resolution or any Supplemental Subordinated Resolution adopted pursuant to said Article X.

SECTION 2.03. Subordinated Bonds Other than Refunding Subordinated Bonds and Special Subordinated Bonds. 1. One or more Series of Subordinated Bonds may be issued at any time for the purpose of paying all or a portion of the Cost of Acquisition and Construction of the System, except that any Series of Refunding Subordinated Bonds shall be issued pursuant to Section 2.04 hereof and any Series of Special Subordinated Bonds shall be issued pursuant to Section 2.05 hereof. Subordinated Bonds of each such Series shall be authenticated and delivered by the Subordinated Bond Registrar or its agent or the Authenticating Agent, as appropriate, only upon compliance by the City with the terms and conditions set forth in Section 2.02.

2. Proceeds, including accrued interest, of each Series of Subordinated Bonds authorized under this Section 2.03 shall be applied simultaneously with the delivery of such Subordinated Bonds as shall be provided in the Supplemental Subordinated Resolution authorizing such Series.

3. For all purposes under this Resolution, upon the effective date of a new line of credit (whether structured as a draw down loan or a revolving line of credit) the City may assume either (1) that the full amount available thereunder has been drawn on such date of issuance and thereafter, no additional Indebtedness shall be deemed to arise when any funding occurs under any such indebtedness (a "Full Draw LOC") or (2) alternatively may assume that the amount of each draw may be treated as a separate Bond issue under this Resolution on each date on which a draw is made under such line of credit (a "Partial Draw LOC"). If the City executes a Full Draw LOC and designates it as a Medium-Term Note or Parity Subordinated Indebtedness which is designated as medium-term notes, the entire amount may be assumed drawn on the effective date on the date of the first draw thereunder and the repayment schedule shall be assumed to be as set forth in the Medium-Term Note Payment Plan or the medium-term note payment plan of Parity Subordinated Indebtedness which is designated as medium-term notes. If the City executes a Partial Draw LOC and designates it as a Medium-Term Note or Parity Subordinated Indebtedness which is designated

as medium-term notes, only the amount drawn on any particular date shall be taken into account and the repayment schedule shall be set forth in the Medium-Term Note Payment Plan or the medium-term note payment plan of Parity Subordinated Indebtedness which is designated as medium-term notes, taking into account the current amount to be draw and all previous amounts drawn and outstanding thereunder. The Certified Interest Rate may be set on the first draw under either a Full Draw LOC or a Partial Draw LOC, and may be adjusted, in the discretion of the City upon future draws of a Partial Draw LOC.

SECTION 2.04. Refunding Subordinated Bonds. 1. One or more Series of Refunding Subordinated Bonds may be issued at any time to refund any Outstanding Bonds, any Outstanding Subordinated Bonds or any outstanding Parity Subordinated Indebtedness. Refunding Subordinated Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make the deposits required by the provisions of the Supplemental Subordinated Resolution authorizing such Refunding Subordinated Bonds.

2. Refunding Subordinated Bonds of each Series shall be authenticated and delivered by the Subordinated Bond Registrar or its agent or the Authenticating Agent, as appropriate, only upon satisfaction of the following conditions, in addition to the conditions set forth in Section 2.02 hereof:

(a) The City shall provide instructions (which may be revocable) to the Escrow Agent, satisfactory to it, to give due notice of redemption, if applicable, of all the Bonds, Subordinated Bonds or Parity Subordinated Indebtedness, as the case may be, to be refunded on a redemption date or dates specified in such instructions;

(b) If the Bonds, Subordinated Bonds or Parity Subordinated Indebtedness, as the case may be, to be refunded do not mature, are not by their terms subject to redemption or, under the plan of refunding applicable thereto, are not to be redeemed, in each case, within the next succeeding 60 days, the City shall provide instructions to the Escrow Agent, satisfactory to it, to give due notice of defeasance in the manner provided for in (a) the Resolution, (b) the Subordinated Resolution and the Supplemental Subordinated Resolution authorizing such Subordinated Bonds or (c) the Supplemental Resolution authorizing such Parity Subordinated Indebtedness, as applicable; and

(c) The City shall provide either (i) moneys (including moneys withdrawn and deposited pursuant to paragraph 4 of Section 507 and paragraph 4 of Section 508 of the Resolution, or any applicable provisions of the Supplemental Subordinated Resolution or Supplemental Resolution authorizing the Subordinated Bonds or Parity Subordinated Indebtedness, if any, to be refunded, as applicable) in an amount sufficient to effect payment at the applicable redemption price of the Bonds, Subordinated Bonds or Parity Subordinated Indebtedness, as the case may be, to be redeemed and of the principal amount of the Bonds, Subordinated Bonds or Parity Subordinated Indebtedness, as the case may be, not to be redeemed, together with accrued interest on such Bonds, Subordinated Bonds or Parity Subordinated Indebtedness, as the case may be, to the redemption date or maturity date, as applicable, which moneys shall be held by the Escrow Agent or one or more of the Paying Agents or Depositories in a separate account irrevocably in trust for and assigned to the respective holders of the Bonds, Subordinated Bonds or Parity Subordinated

Indebtedness, as the case may be, to be refunded, or (ii) investment securities in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications and any moneys, as shall be necessary to comply with the provisions relating to defeasance contained in (a) the Resolution, (b) the Subordinated Resolution and the Supplemental Subordinated Resolution authorizing such Subordinated Bonds to be refunded or (c) the Supplemental Resolution authorizing such Parity Subordinated Indebtedness to be refunded, as applicable, which investment securities and moneys shall be held in trust and used only as provided in said provisions.

3. The proceeds, including accrued interest, of the Refunding Subordinated Bonds of each Series shall be applied simultaneously with the delivery of such Subordinated Bonds to the refunding purposes thereof in the manner provided in the Supplemental Subordinated Resolution authorizing such Series of Refunding Subordinated Bonds.

SECTION 2.05. Special Subordinated Bonds. One or more Series of Special Subordinated Bonds may be issued concurrently with the issuance of the Subordinated Bonds of a Series authorized pursuant to the provisions of Section 2.03 or 2.04 hereof, the Bonds of a Series or the Parity Subordinated Indebtedness of an issue, in any case, for which Credit Enhancement is being provided with respect to such bonds or indebtedness (or a maturity or maturities thereof) by a third party. Such Special Subordinated Bonds shall be issued for the purpose of evidencing the City's obligation to repay any advances or loans made to, or on behalf of, the City in connection with such Credit Enhancement; *provided, however*, that the stated maximum principal amount of any such Series of Special Subordinated Bonds shall not exceed the aggregate principal amount of the Bonds, Subordinated Bonds or Parity Subordinated Indebtedness with respect to which such Credit Enhancement is being provided, and such number of days' interest thereon as the City shall determine prior to the issuance thereof, but not in excess of 365 days' interest thereon, computed at the maximum interest rate applicable thereto and other amounts owing thereunder.

SECTION 2.06. Special Provisions Relating to Capital Appreciation Subordinated Bonds, Deferred Income Subordinated Bonds and Special Subordinated Bonds. 1. The principal and interest portions of the Accreted Value of Capital Appreciation Subordinated Bonds or the Appreciated Value of Deferred Income Subordinated Bonds becoming due at maturity or by virtue of a Sinking Fund Installment shall be included in the calculations of accrued and unpaid and accruing interest or Subordinated Principal Installments made under the definitions of Subordinated Debt Service, Aggregate Subordinated Debt Service and Adjusted Aggregate Subordinated Debt Service only from and after the date (the "Calculation Date") which is one year prior to the date on which such Accreted Value or Appreciated Value, as the case may be, becomes so due, and the principal and interest portions of such Accreted Value or Appreciated Value shall be deemed to accrue in equal daily installments from the Calculation Date to such due date.

2. For the purposes of (i) receiving payment of the redemption price if a Capital Appreciation Subordinated Bond is redeemed prior to maturity, or (ii) receiving payment of a Capital Appreciation Subordinated Bond if the principal of all Subordinated Bonds is declared immediately due and payable following an Event of Default, as provided in Section 8.01 of this Subordinated Resolution or (iii) computing the principal amount of Subordinated Bonds held by the Holder of a Capital Appreciation Subordinated Bond in giving to the City any notice, consent, request, or demand pursuant to this Subordinated Resolution for any purpose whatsoever, the

principal amount of a Capital Appreciation Subordinated Bond shall be deemed to be its then current Accreted Value.

3. For the purposes of (i) receiving payment of the redemption price if a Deferred Income Subordinated Bond is redeemed prior to maturity, or (ii) receiving payment of a Deferred Income Subordinated Bond if the principal of all Subordinated Bonds is declared immediately due and payable following an Event of Default, as provided in Section 8.01 of this Subordinated Resolution or (iii) computing the principal amount of Subordinated Bonds held by the Holder of a Deferred Income Subordinated Bond in giving to the City any notice, consent, request, or demand pursuant to this Subordinated Resolution for any purpose whatsoever, the principal amount of a Deferred Income Subordinated Bond shall be deemed to be its then current Appreciated Value.

4. Except as otherwise provided in a Supplemental Subordinated Resolution, for the purposes of (i) receiving payment of a Special Subordinated Bond, whether at maturity, upon redemption or if the principal of all Subordinated Bonds is deemed immediately due and payable following an Event of Default, as provided in Section 8.01 of this Subordinated Resolution or (ii) computing the principal amount of Subordinated Bonds held by the Holder of a Special Subordinated Bond in giving to the City any notice, consent, request, or demand pursuant to this Subordinated Resolution for any purpose whatsoever, the principal amount of a Special Subordinated Bond shall be deemed to be the actual principal amount that the City shall owe thereon, which shall equal the aggregate of the amounts advanced to, or on behalf of, the City in connection with the Subordinated Bonds of the Series or maturity, the Bonds of the Series or maturity or the Parity Subordinated Indebtedness of the issue or maturity for which such Special Subordinated Bond has been issued to evidence the City's obligation to repay any advances or loans made in respect of the Credit Enhancement provided for such bonds or indebtedness, less any prior repayments thereof.

SECTION 2.07. Estimates by the City. In estimating Net Revenues for each of the Fiscal Years covered by any certificate required to be delivered by it pursuant to clause (4) of Section 2.02 hereof, the City may base its estimate upon such factors as it shall consider reasonable.

ARTICLE III
GENERAL TERMS AND PROVISIONS OF SUBORDINATED BONDS

SECTION 3.01. Medium of Payment; Form and Date; Letters and Numbers. 1. The Subordinated Bonds shall be payable, with respect to interest, principal and Redemption Price, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts or such other currency as may be specified in the Supplemental Subordinated Resolution authorizing such Series.

2. Unless otherwise provided in a Supplemental Subordinated Resolution, the Subordinated Bonds of each Series shall be issued in the form of fully registered Subordinated Bonds without coupons, in substantially the tenor of the form of such Subordinated Bonds set forth in the Supplemental Subordinated Resolution authorizing the Subordinated Bonds of such Series; *provided, however,* that Commercial Paper Notes may be issued in bearer form, not registrable as to principal or face amount.

3. Each Subordinated Bond shall be lettered and numbered as provided in the Supplemental Subordinated Resolution authorizing the Series of which such Subordinated Bond is a part and so as to be distinguished from every other Subordinated Bond.

4. The Subordinated Bonds of each Series shall be dated the date of their authentication, except as may be otherwise provided in the Supplemental Subordinated Resolution authorizing the Subordinated Bonds of such Series and shall bear interest as provided in the Supplemental Subordinated Resolution authorizing the Subordinated Bonds of such Series.

SECTION 3.02. Legends. The Subordinated Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of the Subordinated Resolution as may be necessary or desirable to comply with custom, the rules of any securities exchange or commission or brokerage board, or otherwise, as may be determined by the City prior to the authentication and delivery thereof.

SECTION 3.03. Execution and Authentication. 1. The Subordinated Bonds shall be executed in the name of the City by the manual or facsimile signature of its Mayor and the seal of the City (or a facsimile thereof), shall be impressed, imprinted, engraved or otherwise reproduced thereon and attested by the manual or facsimile signature of the Clerk of the Commission of the City. The Subordinated Bonds shall be approved as to form and legality by the City Attorney. In case any one or more of the officers who shall have signed or sealed any of the Subordinated Bonds shall cease to be such officer before the Subordinated Bonds so signed and sealed shall have been authenticated and delivered by the Subordinated Bond Registrar or its agent, such Subordinated Bonds may, nevertheless, be authenticated and delivered as herein provided, and may be issued as if the persons who signed or sealed such Subordinated Bonds had not ceased to hold such offices. Any Subordinated Bond of a Series may be signed and sealed on behalf of the City by such persons as at the time of the execution of such Subordinated Bonds shall be duly authorized or hold the proper office in the City, although at the date borne by the Subordinated Bonds of such Series such persons may not have been so authorized or have held such office.

2. The Subordinated Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in the Supplemental Subordinated Resolution authorizing such Subordinated Bonds, executed manually by the Subordinated Bond Registrar or its agent. Only such Subordinated Bonds as shall bear thereon such certificate of authentication shall be entitled to any right or benefit under the Subordinated Resolution and no Subordinated Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Subordinated Bond Registrar or its agent. Such certificate of the Subordinated Bond Registrar or its agent upon any Subordinated Bond executed on behalf of the City shall be conclusive evidence that the Subordinated Bond so authenticated has been duly authenticated and delivered under the Subordinated Resolution and that the Holder thereof is entitled to the benefits of the Subordinated Resolution.

SECTION 3.04. Interchangeability of Subordinated Bonds. Except as otherwise provided in a Supplemental Subordinated Resolution, the Subordinated Bonds, upon surrender thereof at the office of the Subordinated Bond Registrar with a written instrument of transfer satisfactory to the Subordinated Bond Registrar, duly executed by the Holder or such Holder's duly authorized attorney, may, upon payment by such Holder of any charges which the Subordinated Bond Registrar may make as provided in Section 3.06, be exchanged for an equal

aggregate principal amount of Subordinated Bonds of the same Series, maturity and interest rate of any other authorized denominations.

SECTION 3.05. Negotiability, Transfer and Registry. 1. Title to any Bearer Commercial Paper Note shall pass by delivery as a negotiable instrument payable to bearer.

2. Except as otherwise provided in a Supplemental Subordinated Resolution, each Subordinated Bond (other than Bearer Commercial Paper Notes) shall be transferable only upon the books of the City, which shall be kept for such purposes at the office of the Subordinated Bond Registrar, by the Holder thereof in person or by such Holder's attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Subordinated Bond Registrar duly executed by the Holder or such Holder's duly authorized attorney. Upon the transfer of any such Subordinated Bond the City shall issue in the name of the transferee a new Subordinated Bond or Subordinated Bonds of the same aggregate principal amount and Series, maturity and interest rate as the surrendered Subordinated Bond.

3. The City and each Subordinated Bond Fiduciary may deem and treat the bearer of any Bearer Commercial Paper Note as the absolute owner of such Bearer Commercial Paper Note, whether such Bearer Commercial Paper Note shall be overdue or not, for the purpose of receiving payment thereof and for all other purposes, and all such payments so made to any such owner or upon such owner's order shall be valid and effectual to satisfy and discharge the liability upon such Bearer Commercial Paper Note to the extent of the sum or sums so paid, and neither the City nor any Subordinated Bond Fiduciary shall be affected by any notice to the contrary. The City agrees to indemnify and save each Subordinated Bond Fiduciary harmless from and against any and all loss, cost, charge, expense, judgment or liability incurred by it, acting in good faith and without negligence under the Subordinated Resolution, in so treating such owner.

4. The City and each Subordinated Bond Fiduciary may deem and treat the person in whose name any Subordinated Bond shall be registered upon the books of the City as the absolute owner of such Subordinated Bond, whether such Subordinated Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Subordinated Bond and for all other purposes, and all such payments so made to any such Holder or upon such Holder's order shall be valid and effectual to satisfy and discharge the liability upon such Subordinated Bond to the extent of the sum or sums so paid, and neither the City nor any Subordinated Bond Fiduciary shall be affected by any notice to the contrary. The City agrees to indemnify and save the Trustee harmless from and against any and all loss, cost, charge, expense, judgment or liability incurred by it, acting in good faith and without negligence under the Subordinated Resolution, in so treating such owner.

SECTION 3.06. Regulations With Respect to Exchanges and Transfers. In all cases in which the privilege of exchanging or transferring Subordinated Bonds is exercised, the City shall execute and the Subordinated Bond Registrar or its agent shall authenticate and deliver Subordinated Bonds in accordance with the provisions of the Subordinated Resolution. All Subordinated Bonds surrendered in any such exchanges or transfers shall forthwith be delivered to the Subordinated Bond Registrar and cancelled or retained by the Subordinated Bond Registrar. For every such exchange or transfer of Subordinated Bonds, the City or the Subordinated Bond Registrar may make a charge sufficient to reimburse it for any tax, fee or other governmental charge imposed in connection with said exchange or transfer by a governmental unit other than

the City. Unless otherwise provided in a Supplemental Subordinated Resolution authorizing a Series of Subordinated Bonds, neither the City nor the Subordinated Bond Registrar shall be required (a) to transfer or exchange Subordinated Bonds of any Series for the period next preceding any interest payment date for such Subordinated Bond beginning with the Regular Record Date for such interest payment date and ending on such interest payment date, or for the period next preceding any date for the proposed payment of Defaulted Subordinated Interest with respect to such Subordinated Bond beginning with the Special Record Date for the date of such proposed payment and ending on the date of such proposed payment, (b) to transfer or exchange Subordinated Bonds of any Series for a period beginning 15 days before the first publication or mailing of any notice of redemption and ending on the day of such publication or mailing; or (c) to transfer or exchange any Subordinated Bonds called for redemption.

SECTION 3.07. Subordinated Bonds Mutilated, Destroyed, Stolen or Lost. If any Subordinated Bond becomes mutilated or is lost, stolen or destroyed, the City shall execute and the Subordinated Bond Registrar or its agent shall authenticate and deliver a new Subordinated Bond of like Series, date of issue, maturity date, principal amount and interest rate per annum as the Subordinated Bond so mutilated, lost, stolen or destroyed, provided that (i) in the case of such mutilated Subordinated Bond, such Subordinated Bond is first surrendered to the City, (ii) in the case of any such lost, stolen or destroyed Subordinated Bond, there is first furnished evidence of such loss, theft or destruction satisfactory to the City together with indemnity satisfactory to the City, (iii) all other reasonable requirements of the City are complied with, and (iv) expenses in connection with such transaction are paid by the Holder. Any such Subordinated Bond surrendered for exchange shall be cancelled. Any such new Subordinated Bonds issued pursuant to this Section in substitution for Subordinated Bonds alleged to be destroyed, stolen or lost shall constitute original additional contractual obligations on the part of the City, whether or not the Subordinated Bonds so alleged to be destroyed, stolen or lost be at any time enforceable by anyone, and shall be equally secured by and entitled to equal and proportionate benefits with all other Subordinated Bonds issued under the Subordinated Resolution in the funds, moneys and securities hereby pledged. If any such certificate lost, stolen or destroyed shall have matured or be about to mature, instead of issuing a new Subordinated Bond pursuant to this Section, the City may cause the same to be paid, upon being indemnified as aforesaid, without surrender thereof.

SECTION 3.08. Payment of Interest on Registered Subordinated Bonds; Interest Rights Reserved. Interest on any fully registered Subordinated Bond which is payable, and is punctually paid or duly provided for, on any interest payment date shall be paid to the person in whose name that Subordinated Bond is registered at the close of business on the date (hereinafter the "Regular Record Date") which is the 15th day of the calendar month next preceding such interest payment date, or such other date as may be provided in the Supplemental Subordinated Resolution authorizing such Subordinated Bond.

Any interest on any fully registered Subordinated Bond which is payable, but is not punctually paid or duly provided for, on any interest payment date (hereinafter "Defaulted Subordinated Interest") shall forthwith cease to be payable to the registered owner on the relevant Regular Record Date by virtue of having been such owner; and such Defaulted Subordinated Interest shall be paid by the City to the persons in whose names the Subordinated Bonds are registered at the close of business on a date (hereinafter the "Special Record Date") for the payment of such Defaulted Subordinated Interest, which shall be fixed in the following manner. The City shall notify the Subordinated Bond Registrar in writing of the amount of Defaulted Subordinated

Interest proposed to be paid on each Subordinated Bond and the date of the proposed payment, and at the same time the City shall deposit with the Subordinated Bond Paying Agents an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Subordinated Interest or shall make arrangements satisfactory to the Subordinated Bond Paying Agents for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the persons entitled to such Defaulted Subordinated Interest as in this Section provided. Thereupon the Subordinated Bond Registrar shall fix a Special Record Date for the payment of such Defaulted Subordinated Interest which shall be not more than 15 nor less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Subordinated Bond Registrar of the notice of the proposed payment. The Subordinated Bond Registrar shall promptly notify the City of such Special Record Date and, in the name and at the expense of the City, shall cause notice of the proposed payment of such Defaulted Subordinated Interest and the Special Record Date therefor to be mailed, first class postage prepaid, to each Holder at such Holder's address as it appears in the books of the City kept at the office of the Subordinated Bond Registrar, not less than 10 days prior to such Special Record Date. The Subordinated Bond Registrar may, in its discretion, in the name and at the expense of the City, cause a similar notice to be published at least once in an Authorized Newspaper, but such publication shall not be a condition precedent to the establishment of such Special Record Date.

Subject to the foregoing provisions of this Section, each Subordinated Bond delivered under this Subordinated Resolution upon transfer of or in exchange for or in lieu of any other Subordinated Bond shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Subordinated Bond.

SECTION 3.09. Book Entry Subordinated Bonds. 1. Anything in the Subordinated Resolution to the contrary notwithstanding, if and to the extent provided in the Supplemental Subordinated Resolution authorizing the Subordinated Bonds of the Series of which such Subordinated Bond is a part, any Subordinated Bond may be authorized and issued as a Book Entry Subordinated Bond.

2. For all purposes of the Subordinated Resolution, the Holder of a Book Entry Subordinated Bond shall be the Securities Depository therefor and neither the City nor any Subordinated Bond Fiduciary shall have any responsibility or obligation to the beneficial owner of such Subordinated Bond or to any direct or indirect participant in such Securities Depository. Without limiting the generality of the foregoing, neither the City nor any Subordinated Bond Fiduciary shall have any responsibility or obligation to any such participant or to the beneficial owner of a Book Entry Subordinated Bond with respect to (i) the accuracy of the records of the Securities Depository or any participant with respect to any beneficial ownership interest in such Subordinated Bond, (ii) the delivery to any participant of the Securities Depository, the beneficial owner of such Subordinated Bond or any other person, other than the Securities Depository, of any notice with respect to such Subordinated Bond, including any notice of the redemption thereof, or (iii) the payment to any participant of the Securities Depository, the beneficial owner of such Subordinated Bond or any other person, other than the Securities Depository, of any amount with respect to the principal or Redemption Price of, or interest on, such Subordinated Bond. The City and the Subordinated Bond Fiduciaries may treat the Securities Depository therefor as, and deem such Securities Depository to be, the absolute owner of a Book Entry Subordinated Bond for all purposes whatsoever, including, but not limited to, (w) payment of the principal or Redemption Price of, and interest on, such Subordinated Bond, (x) giving notices of redemption and of other

matters with respect to such Subordinated Bond, (y) registering transfers with respect to such Subordinated Bond and (z) giving to the City any notice, consent, request or demand pursuant to the Subordinated Resolution for any purpose whatsoever. The Subordinated Bond Paying Agents shall pay the principal or Redemption Price of, and interest on, a Book Entry Subordinated Bond only to or upon the order of the Securities Depository therefor, and all such payments shall be valid and effective to satisfy fully and discharge the City's obligations with respect to such principal or Redemption Price, and interest, to the extent of the sum or sums so paid. Except as otherwise provided in subsection 4 of this Section 3.09 or in any Supplemental Subordinated Resolution authorizing a Book Entry Subordinated Bond, no person other than the Securities Depository shall receive a Subordinated Bond or other instrument evidencing the City's obligation to make payments of the principal or Redemption Price thereof, and interest thereon.

3. The City, in its sole discretion and without the consent of any other person, may, by notice to the Subordinated Bond Registrar and a Securities Depository, terminate the services of such Securities Depository with respect to the Book Entry Subordinated Bonds for which such Securities Depository serves as securities depository if the City determines that (i) the Securities Depository is unable to discharge its responsibilities with respect to such Subordinated Bond or (ii) a continuation of the requirement that all of the Subordinated Bonds issued as Book Entry Subordinated Bonds be registered in the registration books of the City in the name of the Securities Depository is not in the best interests of the beneficial owners of such Subordinated Bonds or of the City. Additional or other terms and provisions relating to the termination or resignation of a Securities Depository may be provided in the Supplemental Subordinated Resolution authorizing a Book Entry Subordinated Bond.

4. Upon the termination of the services of a Securities Depository with respect to a Book Entry Subordinated Bond pursuant to clause (ii) of the first sentence of subsection 3 of this Section 3.09, such Subordinated Bond no longer shall be restricted to being registered in the registration books kept by the Subordinated Bond Registrar in the name of a Securities Depository. Upon the termination of the services of a Securities Depository with respect to a Book Entry Subordinated Bond pursuant to clause (i) of the first sentence of subsection 3 of this Section 3.09, the City may within 90 days thereafter appoint a substitute securities depository which, in the opinion of the City, is willing and able to undertake the functions of Securities Depository under the Subordinated Resolution upon reasonable and customary terms. If no such successor can be found within such period, such Book Entry Subordinated Bond shall no longer be restricted to being registered in the registration books kept by the Subordinated Bond Registrar in the name of a Securities Depository. In the event that a Book Entry Subordinated Bond shall no longer be restricted to being registered in the registration books kept by the Subordinated Bond Registrar in the name of a Securities Depository, (a) the City shall execute and the Subordinated Bond Registrar shall authenticate and deliver, upon presentation and surrender of the Book Entry Subordinated Bond, Subordinated Bond certificates as requested by the Securities Depository so terminated of like Series, principal amount, maturity and interest rate, in authorized denominations, to the identifiable beneficial owners in replacement of such beneficial owners' beneficial ownership interests in such Book Entry Subordinated Bond and (b) the Subordinated Bond Registrar shall notify the Paying Agents that such Subordinated Bond is no longer restricted to being registered in the registration books kept by the Subordinated Bond Registrar in the name of a Securities Depository.

5. Anything in the Subordinated Resolution to the contrary notwithstanding, payment of the Redemption Price of a Book Entry Subordinated Bond, or portion thereof, called for redemption prior to maturity may be paid to the Securities Depository by check or draft mailed to the Securities Depository or by wire transfer. Anything in the Subordinated Resolution to the contrary notwithstanding, such Redemption Price may be paid without presentation and surrender to the Subordinated Bond Paying Agent of the Book Entry Subordinated Bond, or portion thereof, called for redemption; *provided, however,* that payment of (a) the principal payable at maturity of a Book Entry Subordinated Bond and (b) the Redemption Price of a Book Entry Subordinated Bond as to which the entire principal amount thereof has been called for redemption shall be payable only upon presentation and surrender of such Book Entry Subordinated Bond to the Subordinated Bond Paying Agent

Anything in the Subordinated Resolution to the contrary notwithstanding, upon any such payment to the Securities Depository without presentation and surrender, for all purposes of (i) the Book Entry Subordinated Bond as to which such payment has been made and (ii) the Subordinated Resolution, the unpaid principal amount of such Book Entry Subordinated Bond Outstanding shall be reduced automatically by the principal amount so paid. In such event, the Subordinated Bond Paying Agent shall notify forthwith the Subordinated Bond Registrar as to the particular Book Entry Subordinated Bond as to which such payment has been made, and the principal amount of such Subordinated Bond so paid, and the Subordinated Bond Registrar shall note such payment on the registration books of the City maintained by it, but failure to make any such notation shall not affect the automatic reduction of the principal amount of such Book Entry Subordinated Bond Outstanding as provided in this subsection.

6. For all purposes of the Subordinated Resolution authorizing or permitting the purchase of Subordinated Bonds, or portions thereof, by, or for the account of, the City for cancellation, and anything in the Subordinated Resolution to the contrary notwithstanding, a portion of a Book Entry Subordinated Bond may be deemed to have been purchased and cancelled without surrender thereof upon delivery to the Subordinated Bond Registrar of a certificate executed by the City and a participant of the Securities Depository therefor to the effect that a beneficial ownership interest in such Subordinated Bond, in the principal amount stated therein, has been purchased by, or for the account of, the City through the participant of the Securities Depository executing such certificate; *provided, however*, that any purchase for cancellation of the entire principal amount of a Book Entry Subordinated Bond shall be effective for purposes of the Subordinated Resolution only upon surrender of such Book Entry Subordinated Bond to the Subordinated Bond Registrar; and *provided, further,* that no portion of a Book Entry Subordinated Bond may be deemed to have been so purchased and cancelled without surrender thereof unless such Book Entry Subordinated Bond shall contain or have endorsed thereon the legend(s) referred to in subsection 5 of this Section 3.09. Anything in the Subordinated Resolution to the contrary notwithstanding, upon delivery of any such certificate to the Subordinated Bond Registrar, for all purposes of (i) the Book Entry Subordinated Bond to which such certificate relates and (ii) the Subordinated Resolution, the unpaid principal amount of such Book Entry Subordinated Bond Outstanding shall be reduced automatically by the principal amount so purchased. In such event, the Subordinated Bond Registrar shall note such reduction in principal amount of such Book Entry Subordinated Bond Outstanding on the registration books of the City maintained by it, but failure to make any such notation shall not affect the automatic reduction of the principal amount of such Book Entry Subordinated Bond Outstanding as provided in this subsection.

7. Anything in the Subordinated Resolution to the contrary notwithstanding, a Securities Depository may make a notation on a Book Entry Subordinated Bond (i) redeemed in part or (ii) purchased by, or for the account of, the City in part for cancellation, to reflect, for informational purposes only, the date of such redemption or purchase and the principal amount thereof redeemed or deemed cancelled, but failure to make any such notation shall not affect the automatic reduction of the principal amount of such Book Entry Subordinated Bond Outstanding as provided in subsection 5 or 6 of this Section 3.09, as the case may be.

8. Anything in the Subordinated Resolution to the contrary notwithstanding, in the case of a Book Entry Subordinated Bond, the City shall be authorized to redeem or purchase (by or for the account of the City), or issue Debt Securities to refund, less than all of the entire Outstanding principal amount thereof (in portions thereof of $5,000 integral multiples thereof, or such other denominations as shall be specified in the Supplemental Subordinated Resolution authorizing such Book Entry Subordinated Bond), and in the event of such partial defeasance, redemption, purchase or refunding, the provisions of the Subordinated Resolution relating to the defeasance, redemption, purchase or refunding of a Subordinated Bond or Bonds shall be deemed to refer to the redemption, purchase or refunding of a portion of a Subordinated Bond.

ARTICLE IV
REDEMPTION OF SUBORDINATED BONDS

SECTION 4.01. Privilege of Redemption and Redemption Price. Subordinated Bonds subject to redemption prior to maturity pursuant to their terms or the terms of the Supplemental Subordinated Resolution authorizing the Series of which such Subordinated Bonds are a part shall be redeemable, upon notice given as provided in this Article IV, at such times, at such Redemption Prices and upon such terms in addition to or different than the terms contained in this Article IV as may be specified in such Subordinated Bonds or in such Supplemental Subordinated Resolution.

SECTION 4.02. Redemption of Subordinated Bonds. In the case of any redemption of Subordinated Bonds, the City shall give written notice to the Subordinated Bond Registrar and the Subordinated Bond Paying Agents of the redemption date, of the Series, and of the principal amounts of the Subordinated Bonds of each maturity of such Series and of the Subordinated Bonds of each interest rate within a maturity to be redeemed (which Series, maturities, interest rates within a maturity and principal amounts thereof to be redeemed shall be determined by the City in its sole discretion, subject to any limitations with respect thereto contained in the Subordinated Resolution or any Supplemental Subordinated Resolution authorizing the Series of which such Subordinated Bonds are a part). Such notice shall be filed with the Subordinated Bond Registrar and the Subordinated Bond Paying Agents at least 40 days prior to the redemption date or such shorter period (a) as shall be specified in the Supplemental Subordinated Resolution authorizing the Series of Subordinated Bonds to be redeemed or (b) as shall be acceptable to the Subordinated Bond Registrar and the Subordinated Bond Paying Agents. In the event notice of redemption shall have been given as in Section 4.04 provided, and unless such notice shall have been revoked or cease to be in effect in accordance with the terms thereof, there shall be paid on or prior to the redemption date to the appropriate Subordinated Bond Paying Agents an amount which, in addition to other moneys, if any, available therefor held by such Subordinated Bond Paying Agents, will be sufficient to redeem on the redemption date at the Redemption Price thereof, plus interest accrued and unpaid to the redemption date, all of the Subordinated Bonds to be redeemed.

SECTION 4.03. Selection of Subordinated Bonds to be Redeemed. Except as otherwise provided by Supplemental Resolution, if fewer than all of the Subordinated Bonds of like maturity or interest rate within a maturity of any Series shall be called for prior redemption, the particular Subordinated Bonds or portions of Subordinated Bonds to be redeemed shall be selected at random in such manner as the City in its discretion may deem fair and appropriate; *provided, however*, that for any Subordinated Bond of a denomination of more than the minimum denomination specified in the Supplemental Subordinated Resolution relating to such Series, the portion of such Subordinated Bond to be redeemed shall, unless otherwise specified in the Supplemental Subordinated Resolution relating to such Series be in a principal amount equal to such minimum denomination or an integral multiple thereof, and that, in selecting portions of such Subordinated Bonds for redemption, each such Subordinated Bond shall be treated as representing that number of Subordinated Bonds of such minimum denomination which is obtained by dividing the principal amount of such Subordinated Bond to be redeemed in part by the amount of such minimum denomination.

SECTION 4.04. Notice of Redemption. When any Subordinated Bonds shall become subject to redemption, the City shall give notice, or provide for the giving of notice, of the redemption of such Subordinated Bonds, which notice shall specify the Series and maturities and interest rates within maturities, if any, of the Subordinated Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if fewer than all of the Subordinated Bonds of any like Series and maturity and interest rate within maturities are to be redeemed, the letters and numbers or other distinguishing marks of such Subordinated Bonds so to be redeemed, and, in the case of Subordinated Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed and such notice may be conditioned upon the occurrence or non-occurrence of certain events. Such notice shall further state that on such date, unless such notice has been rescinded or has ceased to be in effect in accordance with the terms thereof, there shall become due and payable upon each Subordinated Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Subordinated Bonds to be redeemed in part only, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. Such notice shall be mailed by first class mail, postage prepaid, or electronically, by or on behalf of the City, not less than 20 nor more than 60 days before the redemption date, to the Holders of any Subordinated Bonds or portions of Subordinated Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books or in such other manner and upon such terms as may be specified in the Supplemental Resolution authorizing the issuance of such Subordinated Bonds. Failure to give notice of redemption by mail, or any defect in such notice, to the Holder of any Subordinated Bond of any Series shall not affect the validity of the proceedings for the redemption of any other Subordinated Bonds of such Series. Notwithstanding the foregoing, a Supplemental Subordinated Resolution authorizing a Series of Subordinated Bonds may specify a different method for the giving of a notice of redemption, or a different time by which such notice shall be given.

SECTION 4.05. Payment of Redeemed Subordinated Bonds. Notice having been given in the manner provided in Section 4.04 or in the manner provided in the Supplemental Subordinated Resolution authorizing a Series of Subordinated Bonds, on the redemption date so designated, (a) unless such notice shall have been revoked or shall cease to be in effect in accordance with the terms thereof and (b) if there shall be sufficient moneys available therefor, then the Subordinated Bonds or portions thereof so called for redemption shall become due and

payable on the redemption date at the Redemption Price, plus interest accrued and unpaid to the redemption date, and, if presentation and surrender shall be required hereby, upon presentation and surrender thereof at the office specified in such notice, such Subordinated Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there shall be called for redemption less than all of a Subordinated Bond, if presentation and surrender are required hereby, the City shall execute and the Subordinated Bond Registrar shall authenticate and the Subordinated Bond Paying Agent shall deliver, upon the surrender of such Subordinated Bond, without charge to the Holder thereof, for the unredeemed balance of the principal amount of the Subordinated Bond so surrendered, Subordinated Bonds of like Series, maturity and interest rate in any of the authorized denominations. If, on the redemption date, moneys for the redemption of all the Subordinated Bonds or portions thereof of any like Series, maturity and interest rate to be redeemed, together with interest to the redemption date, shall be held by the Subordinated Bond Paying Agents so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid and has not been rescinded or ceased to be in effect, then, from and after the redemption date interest on the Subordinated Bonds or portions thereof of such Series, maturity and interest rate so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Subordinated Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

SECTION 4.06. Reserved.

SECTION 4.07. Cancellation and Destruction of Subordinated Bonds. Except as may be otherwise provided with respect to Option Subordinated Bonds in the Supplemental Subordinated Resolution providing for the issuance thereof, all Subordinated Bonds paid or redeemed, either at or before maturity, shall be delivered to the Subordinated Bond Registrar or its agent when such payment or redemption is made, and such Subordinated Bonds, together with all Subordinated Bonds purchased by the City, shall thereupon be promptly cancelled. Subordinated Bonds so cancelled may at any time be destroyed by the Subordinated Bond Registrar or its agent, who shall execute a certificate of destruction in duplicate by the signature of one of its authorized officers describing the Subordinated Bonds so destroyed, and one executed certificate shall be filed with the City and the other executed certificate shall be retained by the Subordinated Bond Registrar.

ARTICLE V
SECURITY FOR THE SUBORDINATED BONDS AND APPLICATION OF FUNDS AND ACCOUNTS

SECTION 5.01. Sources of Payment and Security for the Subordinated Bonds. 1. The Subordinated Bonds shall be direct and special obligations of the City payable from and secured by amounts in the Subordinated Indebtedness Fund, subject, however, to (i) the security interest in and pledge and assignment of the Trust Estate created by the Resolution as security for the Bonds, (ii) any security interest in or pledge or assignment of the Trust Estate created as security for any Parity Hedging Contract Obligations and (iii) any security interest in or pledge or assignment of the Subordinated Indebtedness Fund created as security for any Parity Subordinated Indebtedness.

There is hereby pledged for the payment of the principal or sinking fund Redemption Price, if any, of, and interest on, the Subordinated Bonds in accordance with their terms and the

provisions of the Subordinated Resolution, for the benefit of the Holders of the Subordinated Bonds, the Subordinated Indebtedness Fund, including the funds, moneys and securities contained therein, subject only to the provisions of the Resolution and the Subordinated Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution and the Subordinated Resolution, *provided, however*, that (i) such pledge and assignment shall be on a parity with any pledge and assignment thereof created as security for any Parity Subordinated Indebtedness and (ii) such pledge and assignment shall be subordinate in all respects to (A) the pledge and assignment of the Trust Estate created by the Resolution as security for the Bonds and (B) any pledge and assignment of the Trust Estate created as security for any Parity Hedging Contract Obligations.

2. Amounts on deposit in any Subordinated Bond Construction Account or any Subordinated Bond Payment Account established with respect to a Series of Subordinated Bonds may, to the extent provided in the Supplemental Subordinated Resolution establishing such subaccount or authorizing such Series of Subordinated Bonds, be pledged as additional security for the payment of the principal or Redemption Price, if any, of, and interest on, the Subordinated Bonds of such Series, subject only to the provisions of such Supplemental Subordinated Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein.

3. The funds, moneys and securities pledged and assigned for the benefit of the Holders of the Subordinated Bonds pursuant to the Subordinated Resolution shall immediately be subject to the lien and charge of the Subordinated Resolution without any physical delivery thereof or further act, and the lien and charge of the Subordinated Resolution shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the City, irrespective of whether such parties have notice thereof.

4. The Subordinated Bonds 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 Subordinated Bonds 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 or Redemption Price, if any, of, and interest on, the Subordinated Bonds or the making of any payments hereunder. The Subordinated Bonds 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, in the case of a Series of Subordinated Bonds for which a Subordinated Bond Construction Account and/or a Subordinated Bond Payment Account is established pursuant to a Supplemental Subordinated Resolution, to the extent provided in such Supplemental Subordinated Resolution, such Subordinated Bond Construction Account and/or such Subordinated Bond Payment Account.

SECTION 5.02. <u>Subordinated Indebtedness Fund</u>. 1. Subject to the provisions of paragraph 3 of Section 509 of the Resolution, amounts in the Subordinated Indebtedness Fund shall be applied to the payment of the principal or sinking fund Redemption Price, if any, of, and interest on, the Subordinated Bonds when due, as further provided in this Section 5.02, in each case on a parity with the payment of the principal or sinking fund redemption price, if any, of, and interest on, any Parity Subordinated Indebtedness.

2. Except to the extent that moneys are available in any Subordinated Bond Payment Account established with respect to a particular Series of the Subordinated Bonds (excluding, for

this purpose, amounts, if any, set aside in said Account for the payment of interest on the Subordinated Bonds of such Series on a future date), the City shall in writing or by telephone (promptly confirmed in writing), telex, telecopier or other telecommunications device, direct the Trustee to pay out of the Subordinated Indebtedness Fund, and upon such direction the Trustee shall pay, to the respective Subordinated Bond Paying Agents (i) on or before each interest payment date for such Series of the Subordinated Bonds the amount required for the interest payable on such date; (ii) on or before the due date for each Subordinated Principal Installment for such Series, the amount required for the Subordinated Principal Installment payable on such due date; and (iii) on or before any redemption date for the Subordinated Bonds of such Series, the amount required for the payment of interest on the Subordinated Bonds of such Series then to be redeemed. To the extent that moneys are available in any such Subordinated Bond Payment Account (except as aforesaid) on or before any such date to pay the interest or Subordinated Principal Installments payable on such date with respect to such Series, the City shall pay, or cause to be paid, to the Subordinated Bond Paying Agents on or before such date the moneys so available. Such amounts and moneys shall be applied by the Subordinated Bond Paying Agents on and after the due dates thereof. Except to the extent that moneys are available in any Subordinated Bond Payment Account established with respect to a particular Series of the Subordinated Bonds (excluding, for this purpose, amounts, if any, set aside in said Account for the payment of interest on the Subordinated Bonds of such Series on a future date), the City shall, in writing or by telephone (promptly confirmed in writing), telex, telecopier or other telecommunications device, direct the Trustee also to pay out of the Subordinated Indebtedness Fund, and upon such direction the Trustee also shall pay, the accrued interest included in the purchase price of Subordinated Bonds of such Series purchased for retirement. To the extent that moneys are available in any such Subordinated Bond Payment Account (except as aforesaid) on or before the date of such purchase to pay such accrued interest, the City shall pay, or cause to be paid, the moneys so available.

3. Amounts accumulated in the Subordinated Indebtedness Fund with respect to any Sinking Fund Installment (together with amounts accumulated therein with respect to interest on the Subordinated Bonds for which such Sinking Fund Installment was established) shall, if so directed by the City, be transferred by the Trustee to or upon the order of the City, on or prior to the 60th day preceding the due date of such Sinking Fund Installment, for application to (i) the purchase of Subordinated Bonds of the Series, maturity and interest rate within each maturity for which such Sinking Fund Installment was established, or (ii) the redemption at the applicable sinking fund Redemption Price of such Subordinated Bonds, if then redeemable by their terms. After the 60th day but on or prior to the 40th day preceding the due date of such Sinking Fund Installment, any amounts then on deposit in the Subordinated Indebtedness Fund (exclusive of amounts, if any, set aside in said Fund which were deposited therein from proceeds of Subordinated Bonds or other Debt Securities) shall, if so directed by the City, be transferred by the Trustee to or upon the order of the City, for application to the purchase of Subordinated Bonds of the Series, maturity and interest rate within each maturity for which such Sinking Fund Installment was established in an amount not exceeding that necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment. All purchases of any Subordinated Bonds pursuant to this paragraph 3 shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Subordinated Bonds plus accrued interest, and such purchases shall be made by or at the direction of the City. The applicable sinking fund Redemption Price (or principal amount of maturing Subordinated Bonds) of any Subordinated Bonds so purchased or redeemed shall be deemed to constitute part of the Subordinated Indebtedness Fund until such Sinking Fund Installment date, for the purpose of calculating the amount of such Fund. As soon

as practicable after the 40th day preceding the due date of any such Sinking Fund Installment, the City shall proceed to call for redemption, by giving notice as provided in Section 4.04, on such due date Subordinated Bonds of the Series, maturity and interest rate within each maturity for which such Sinking Fund Installment was established (except in the case of Subordinated Bonds maturing on a Sinking Fund Installment date) in such amount as shall be necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment after making allowance for any Subordinated Bonds purchased or redeemed which the City has determined to apply as a credit against such Sinking Fund Installment as provided in Section 5.06. Except to the extent that moneys are available in any Subordinated Bond Payment Account established with respect to a particular Series of the Subordinated Bonds (exclusive of amounts, if any, set aside in said Account for the payment of interest on the Subordinated Bonds of such Series on a future date), the City shall, in writing or by telephone (promptly confirmed in writing), telex, telecopier or other telecommunications device, direct the Trustee to pay out of the Subordinated Indebtedness Fund, and upon such direction the Trustee shall pay, to the appropriate Paying Agents, on or before such redemption date (or maturity date), the amount required for the redemption of the Subordinated Bonds of such Series so called for redemption (or for the payment of such Subordinated Bonds then maturing). To the extent that moneys are available in any such Subordinated Bond Payment Account (except as aforesaid) on or before such redemption date (or maturity date), the City shall pay, or cause to be paid, the moneys so available. Such amount and moneys shall be applied by such Subordinated Bond Paying Agents to such redemption (or payment). All expenses in connection with the purchase or redemption of Subordinated Bonds shall be paid by the City from the Revenue Fund.

4. Except as otherwise issued by Supplemental Resolution, the amount, if any, deposited in the Subordinated Indebtedness Fund from the proceeds of Subordinated Bonds shall be set aside in such Fund and may be applied to the payment of interest on Subordinated Bonds in accordance with certificates of the City executed pursuant to clause (5) of Section 2.02 or, in the event that the City shall modify or amend any such certificate by a subsequent certificate signed by an Authorized Officer of the City, then in accordance with the most recent such certificates or amended certificates.

SECTION 5.03. Subordinated Bond Construction Accounts. 1. The City may provide in a Supplemental Subordinated Resolution for the establishment of a Subordinated Bond Construction Account.

2. There shall be paid into any Subordinated Bond Construction Account the amounts required to be so paid by the provisions of any Supplemental Subordinated Resolution.

3. Amounts on deposit in any Subordinated Bond Construction Account shall be invested, withdrawn, used and applied by the City in the manner provided in the Supplemental Subordinated Resolution establishing such Account.

SECTION 5.04. Subordinated Bond Payment Accounts. 1. The City may provide in a Supplemental Subordinated Resolution for the establishment of a Subordinated Bond Payment Account for the benefit of the Holders of all or a specified portion of the Subordinated Bonds of such Series.

2. There shall be paid into any Subordinated Bond Payment Account the amounts required to be so paid by the provisions of any Supplemental Subordinated Resolution, including, without limitation, the proceeds of any Debt Securities.

3. Amounts on deposit in any Subordinated Bond Payment Account shall be invested, withdrawn, used and applied by the City in the manner provided in the Supplemental Subordinated Resolution establishing such Account.

SECTION 5.05. Additional Accounts. If and to the extent provided in a Supplemental Subordinated Resolution, the City may establish such additional accounts with respect to such Subordinated Bonds of one or more Series as shall be specified in such Supplemental Subordinated Resolution. If and to the extent provided in any such Supplemental Subordinated Resolution, amounts on deposit in any such account, including the investments, if any, thereof may be pledged and assigned for the payment of the principal or Redemption Price, if any, of, and interest on, any or all of such Subordinated Bonds. In such event, deposits to and withdrawals from any such account shall be governed by the provisions of such Supplemental Subordinated Resolution; *provided, however*, that in the event that any such Supplemental Subordinated Resolution shall provide for the deposit of Revenues into any such account, such deposit shall not be made in any month until after the application of Revenues as provided in subsection 2 of Section 505 of the Resolution shall have been made for such month; and *provided, further*, that if the amount on deposit in the Revenue Fund shall not be sufficient to make all such deposits so required to made with respect to all such accounts in any month, then such amount on deposit in the Revenue Fund shall be applied ratably, in proportion to the amount necessary for deposit into each such account. Any Revenues so deposited into any such account shall be free and clear of any trust, lien or pledge securing the Bonds or otherwise existing under the Resolution.

SECTION 5.06. Credits Against Sinking Fund Installments. If at any time Subordinated Bonds of any Series or maturity for which Sinking Fund Installments shall have been established are purchased or redeemed other than pursuant to the provisions of paragraph 3 of Section 5.02 or deemed to have been paid pursuant to paragraph 2 of Section 12.01 and, with respect to such Subordinated Bonds which have been deemed paid, irrevocable instructions have been given to the Escrow Agent to redeem or purchase the same on or prior to the due date of the Sinking Fund Installment to be credited under this Section 5.06, the City may from time to time and at any time determine the portion, if any, of such Subordinated Bonds so purchased, redeemed or deemed to have been paid and not previously applied as a credit against any Sinking Fund Installment which are to be credited against future Sinking Fund Installments. Such determination shall include the amounts of such Subordinated Bonds to be applied as a credit against such Sinking Fund Installment or Installments and the particular Sinking Fund Installment or Installments against which such Subordinated Bonds are to be applied as a credit; *provided, however*, that none of such Subordinated Bonds may be applied as a credit against a Sinking Fund Installment to become due less than 45 days after such determination is made. All such Subordinated Bonds to be applied as a credit shall be surrendered to the Subordinated Bond Registrar for cancellation on or prior to the due date of the Sinking Fund Installment against which they are being applied as a credit. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

ARTICLE VI
PAYMENTS INTO SUBORDINATED INDEBTEDNESS FUND FROM REVENUES

In accordance with the provisions of Section 505 of the Resolution, the City shall withdraw from the Revenue Fund and forward to the Trustee for deposit in the Subordinated Indebtedness Fund (a) in each month such amounts as shall be provided in the Annual Budget or otherwise determined by the City to be deposited in the Subordinated Indebtedness Fund for the payment of the principal or sinking fund redemption price, if any, of, interest on, and other amounts due with respect to Subordinated Bonds and other Subordinated Indebtedness on the next succeeding payment date with respect to such bonds and indebtedness and (b) in any event, on any date that any principal or sinking fund redemption price, if any, of, and interest on, any Subordinated Bonds or other Subordinated Indebtedness shall become due and payable, an amount which, together with (i) other amounts then on deposit in such Subordinated Indebtedness Fund, including the proceeds of the sale of Debt Securities (exclusive of amounts, if any, set aside in said Fund for the payment of interest on Subordinated Indebtedness on a future date or as a reserve for the payment of the principal or redemption price, if any, of, and interest on, Subordinated Indebtedness), (ii) in the case of Subordinated Bonds of any Series for which a Subordinated Bond Payment Account has been established, the amounts then on deposit in such Subordinated Bond Payment Account (exclusive of amounts, if any, set aside in said Account for the payment of interest on the Subordinated Bonds of such Series on a future date) and (iii) in the case of any other issue of Subordinated Indebtedness for which a separate fund or account has been established as a source of moneys for the payment of the Subordinated Indebtedness of such issue, the amounts available in such fund or account (exclusive of amounts, if any, set aside in said fund or account for the payment of interest on the Subordinated Indebtedness of such issue on a future date or as a reserve for the payment of the principal or redemption price, if any, of, and interest on, the Subordinated Indebtedness of such issue), will be sufficient and available to make such payment in full on such payment date. The Trustee shall have no responsibility for, and shall not be under any obligation to enforce, the agreements of the City contained in this Article VI.

ARTICLE VII
PARTICULAR COVENANTS OF THE CITY

The City covenants and agrees with the Holders of the Subordinated Bonds as follows:

SECTION 7.01. Payment of Subordinated Bonds. The City shall duly and punctually pay or cause to be paid, but solely from the sources specified in this Subordinated Resolution and any Supplemental Subordinated Resolution, the principal or Redemption Price of every Subordinated Bond and the interest thereon, at the dates and places and in the manner mentioned in the Subordinated Bonds, according to the true intent and meaning thereof. For the purpose of providing for the payment of the principal or sinking fund Redemption Price of the Outstanding Subordinated Bonds of each Series and the interest thereon on the date that the same shall become due and payable, the City, on or prior to such date, will, except to the extent that moneys are available therefor in the Subordinated Bond Payment Account, if any, established with respect to such Series (exclusive of amounts, if any, set aside in said Account for the payment of interest on the Subordinated Bonds of such Series on a future date), pay or cause to be paid to the Trustee for deposit in the Subordinated Indebtedness Fund an amount which, together with (i) other amounts then on deposit in such Subordinated Indebtedness Fund (exclusive of amounts, if any, set aside in said Fund for the payment of interest on Subordinated Indebtedness on a future date or as a

reserve for the payment of the principal or redemption price, if any, of, and interest on, Subordinated Indebtedness) and (ii) the moneys so available therefor in such Subordinated Bond Payment Account (except as aforesaid), will be sufficient and available to make such payment on such date. For the purpose of providing for the payment of the Redemption Price of the Outstanding Subordinated Bonds that shall have been called for redemption at the election of the City on the date that the same shall become due and payable, the City will, on or prior to such date, pay or cause to be paid to the Subordinated Bond Paying Agents therefor, from any moneys of the City legally available therefor, an amount which will be sufficient and available to make such payment.

SECTION 7.02. Reserved.

SECTION 7.03. Offices for Servicing Subordinated Bonds. Except as may be otherwise provided in any Supplemental Subordinated Resolution with respect to any Series of Subordinated Bonds, to the extent any Subordinated Bonds (other than Special Subordinated Bonds) Outstanding are not held in Book-Entry Form, the City shall at all times maintain one or more agencies where Subordinated Bonds may be presented for payment and shall at all times maintain one or more agencies where Subordinated Bonds may be presented for registration, transfer or exchange. The City shall at all times maintain one or more agencies where notices, demands and other documents may be served upon the City in respect of the Subordinated Bonds or of the Subordinated Resolution. The City hereby appoints the Subordinated Bond Registrar to maintain the agency for the registration, transfer or exchange of Subordinated Bonds, and for the service upon the City of such notices, demands and other documents, and the Subordinated Bond Registrar shall continuously maintain or make arrangements to provide such services. The City hereby appoints the Subordinated Bond Paying Agents in such cities as its respective agents to maintain such agencies for the payment or redemption of Subordinated Bonds.

SECTION 7.04. Further Assurance. At any and all times the City shall, as far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, moneys, securities and funds hereby pledged or assigned, or intended so to be, or which the City may become bound to pledge or assign.

SECTION 7.05. Power to Issue Subordinated Bonds and Pledge Subordinated Indebtedness Fund. The City is duly authorized under all applicable laws to create and issue the Subordinated Bonds, to adopt the Subordinated Resolution and to pledge and assign the moneys, securities and funds hereby pledged and assigned on a parity with any Parity Subordinated Indebtedness in the manner and to the extent provided in the Subordinated Resolution. Except with respect to the Bonds, any Parity Hedging Contract Obligations and any Parity Subordinated Indebtedness and except to the extent otherwise provided in the Subordinated Resolution, the moneys, securities and funds so pledged and assigned are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the security interest, pledge and assignment created by the Subordinated Resolution, and all corporate or other action on the part of the City to that end has been and will be duly and validly taken. The Subordinated Bonds and the provisions of the Resolution, including this Subordinated Resolution, are and will be the valid and legally enforceable obligations of the City in accordance with their terms and the terms of the Resolution, including this Subordinated Resolution. The City shall at

all times, to the extent permitted by law and, in the case of the Subordinated Indebtedness Fund, subject to (i) the lien thereon created by the Resolution as security for the Bonds, (ii) any lien thereon created as security for any Parity Hedging Contract Obligations and (iii) the rights of the holders of any Parity Subordinated Indebtedness outstanding from time to time under the Resolution, defend, preserve and protect the pledge of the moneys, securities and funds pledged and assigned hereby and all the rights of the Holders of the Subordinated Bonds hereunder, against all claims and demands of all persons whomsoever.

SECTION 7.06. Creation of Liens. The City shall not issue any bonds, notes, debentures, or other evidences of indebtedness of similar nature, other than the Bonds, any Parity Hedging Contract Obligations and the Subordinated Bonds, payable out of or secured by a security interest in or pledge or assignment of the Subordinated Indebtedness Fund, including the funds, moneys and securities contained therein; *provided, however*, that nothing contained in the Subordinated Resolution shall prevent the City from issuing, if and to the extent permitted by law and the Resolution, (i) Parity Subordinated Indebtedness, if and to the extent that, upon the original issuance of such Parity Subordinated Indebtedness, an Authorized Officer of the City shall execute certificates to the same effect as those set forth in clauses (3) and (4) of Section 2.02 hereof; provided that no such certificates shall be required in connection with any Subordinated Hedging Contract Obligations, or (ii) Subordinated Indebtedness that is expressly made subordinate in right of payment to the Subordinated Bonds and for which any pledge of such amounts in the Subordinated Indebtedness Fund as may from time to time be available therefor shall be, and shall be expressed to be, subordinate in all respects to the pledge and lien created under the Subordinated Resolution as security for the Subordinated Bonds.

SECTION 7.07. Performance of Covenants. The City agrees to comply with the provisions of paragraph 2 of Section 707 of the Resolution and Sections 706, 708, 709, 711, 712, 713, 714, 715, 716 and 717 of the Resolution, as the same may be amended from time to time pursuant to and in accordance with the provisions of the Resolution, until the Subordinated Bonds and interest thereon shall have been paid or provision for such payment shall have been made, except that (i) the references therein to Section 710 of the Resolution shall be deemed to be references to Section 7.08 hereof; (ii) the references therein to the Holders of the Bonds or the Bondholders shall be deemed to be references to the Holders of the Subordinated Bonds; (iii) the references therein to the rights or security of Bondholders under the Resolution shall be deemed to be references to the rights or security of the Holders of the Subordinated Bonds hereunder; (iv) for purposes of the reference to paragraph 5 of Section 503 of the Resolution in clause (4) of paragraph 2 of Section 707 of the Resolution, the reference to the Holders of the Bonds in said paragraph 5 shall be deemed to be a reference to the Holders of the Subordinated Bonds; and (v) the references therein to the Resolution (other than the reference to paragraph 5 of Section 503 of the Resolution in clause (4) of paragraph 2 of Section 707 of the Resolution) shall be deemed to be references to this Subordinated Resolution.

SECTION 7.08. Rates, Fees and Charges. 1. The City shall at all times 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 shall be at least equal to the sum of (a) the Aggregate Debt Service on the Outstanding 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 Resolution and to comply with all covenants on the part of the City contained in the Resolution and the Subordinated Resolution; *provided, however*, that (i) any Principal Installment which is a Refundable Principal Installment may be excluded from Aggregate Debt Service for purposes of the foregoing but only to the extent that the City intends to pay such Principal Installment from sources other than Revenues, (ii) any Subordinated Principal Installment which is a Refundable Subordinated Principal Installment may be excluded from Aggregate Subordinated Debt Service for purposes of the foregoing but only to the extent that the City intends to pay such Subordinated Principal Installment from sources other than Revenues and (iii) the principal of any Refundable Parity Subordinated Indebtedness may be excluded from Parity Subordinated Indebtedness Debt Service for purposes of the foregoing but only to the extent that the City intends to pay such principal from sources other than Revenues. 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 Resolution.

2. No free service or service otherwise than in accordance with the established rates, fees and charges shall be furnished by the System or as otherwise required by law, which rates, fees and charges shall not permit the granting of preferential rates, fees or charges among the users of the same class of customers; provided, however, the City may dispose without charge reclaimed water for irrigation or any other purpose if it is deemed by the City to be an efficient use of such reclaimed water. If and to whatever extent the City receives the services and facilities of the System, it shall pay for such services and facilities according to the City's established rate schedule, and the amounts so paid shall be included in the amount of Revenues.

SECTION 7.09. General. 1. The City shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the City under the provisions of the Act and the Subordinated Resolution.

2. Upon the date of authentication and delivery of any of the Subordinated Bonds, all conditions, acts and things required by law and this Subordinated Resolution to exist, to have happened and to have been performed precedent to and in the issuance of such Subordinated Bonds shall exist, have happened and have been performed and the issuance of such Subordinated Bonds shall comply in all respects with the applicable laws of the State of Florida.

3. Notwithstanding the provisions of paragraph 1 of Section 1201 of the Resolution, (i) the pledge of the Subordinated Indebtedness Fund, including the funds, moneys and securities contained therein, hereunder and the covenants, agreements and other obligations of the City to the Holders of the Subordinated Bonds, (ii) the Trustee's obligations with respect to the Subordinated Indebtedness Fund and (iii) all other provisions of the Resolution necessary or desirable to give effect to the foregoing shall remain in full force and effect so long as any Subordinated Bonds remain Outstanding.

ARTICLE VIII
REMEDIES ON DEFAULT

SECTION 8.01. Events of Default. If one or more of the following Events of Default shall happen:

(i) if default shall be made (a) in the due and punctual payment of the principal or Redemption Price of any Subordinated Bond (other than Special Subordinated Bonds) when and as the same shall become due and payable, whether at maturity or by call or proceedings for redemption, or otherwise, or (b) in the due and punctual payment of any amounts due on Special Subordinated Bonds (after the lapse of any notice requirements or grace periods, or both, as provided in the documentation pertaining thereto);

(ii) if default shall be made in the due and punctual payment of any installment of interest on any Subordinated Bond or the unsatisfied balance of any Sinking Fund Installment, when and as such interest installment or Sinking Fund Installment shall become due and payable;

(iii) the Revenues in any Fiscal Year shall be inadequate to comply with the requirements of Section 7.08 hereof, unless the City promptly takes remedial action to ensure compliance thereafter consistent with the determination of the Consulting Engineer rendered pursuant to paragraph 4 of Section 713 of the Resolution and Section 7.07 hereof;

(iv) if default shall be made by the City in the performance or observance of any other of the covenants, agreements or conditions on its part in the Subordinated Resolution or in the Subordinated Bonds contained, and such default shall continue for a period of 90 days after written notice specifying such default and requiring that it shall have been remedied and stating that such notice is a "Notice of Default" hereunder is given to the City by Holders of not less than 25% in principal amount of the Subordinated Bonds Outstanding; provided, however, the City shall not be deemed in default hereunder if such default can be cured within a reasonable time and if the City in good faith institutes applicable curative action within 90 days of such notice and thereafter diligently pursues such action until the default has been corrected;

(v) a court having jurisdiction in the premises shall enter a decree or order providing for relief in respect of the City in an involuntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the City or for any substantial part of its property, or ordering the winding up or liquidation of its affairs and such decree or order shall remain unstayed and in effect for a period of ninety (90) days;

(vi) the City shall commence a voluntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of the City or for any substantial part of its property, or shall make any general assignment for the benefit of creditors, or shall fail

generally to pay its debts as they become due or shall take any action in furtherance of the foregoing;

(vii) if an Event of Default shall have occurred pursuant to the provisions of the Resolution; or

(viii) if the City shall fail to pay, or to cause to be paid, when due, the principal or redemption price of, or interest on, any Parity Subordinated Indebtedness;

then, and in each and every such case, so long as such Event of Default shall not have been remedied, unless the principal of all the Subordinated Bonds shall have already become due and payable, the Holders of not less than 25% in principal amount of the Subordinated Bonds Outstanding (by notice in writing to the City) may declare the principal of all the Subordinated Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable, anything in the Subordinated Resolution or in any of the Subordinated Bonds contained to the contrary notwithstanding. The right of the Holders of not less than 25% in principal amount of the Subordinated Bonds to make any such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, but before the Subordinated Bonds shall have matured by their terms, all overdue installments of interest on the Subordinated Bonds, together with interest on such overdue installments of interest to the extent permitted by law and the reasonable and proper charges, expenses and liabilities of the Trustee, and the Co-Trustee, if any, and all other sums then payable by the City under the Subordinated Resolution (except the principal of, and interest accrued since the next preceding interest date on, the Subordinated Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the City or adequate provision shall be made for such payment, and all defaults under the Subordinated Bonds or under the Subordinated Resolution (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be made good or adequate provision shall be made therefor, then and in every such case the Holders of 25% in principal amount of the Subordinated Bonds Outstanding, by written notice to the City, may rescind such declaration and annul such default in its entirety, but no such rescission or annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

SECTION 8.02. Accounting and Examination of Records After Default. 1. The City covenants that if an Event of Default shall have happened and shall not have been remedied, the books of records and accounts of the City and all other records relating to the System shall at all times be subject to the inspection and use of the Holders of the Subordinated Bonds and of their agents and attorneys.

2. The City covenants that if an Event of Default shall happen and shall not have been remedied, the City, upon demand of the Holders of not less than 25% in principal amount of the Subordinated Bonds at the time Outstanding, will account, as if it were the trustee of an express trust, for all moneys, securities and funds pledged or held under the Resolution or the Subordinated Resolution as security for the Subordinated Bonds for such period as shall be stated in such demand.

SECTION 8.03. Application of Moneys after Default. 1. During the continuance of an Event of Default of which an officer of the Trustee in its Corporate Trust Department has

knowledge, the Trustee shall apply all moneys, securities and funds held or received by Trustee with respect to the Subordinated Indebtedness Fund as follows and in the following order:

(a) to the extent required thereby, to the purposes indicated in paragraph 2 of Section 803 of the Resolution; and

(b) to the payment of the interest and principal or redemption price then due on the Subordinated Bonds and the Parity Subordinated Indebtedness, as follows:

(i) unless the principal of all of the Subordinated Bonds and the Parity Subordinated Indebtedness shall have become or have been declared due and payable,

FIRST: **Interest** – To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, together with accrued and unpaid interest on the Subordinated Bonds and the Parity Subordinated Indebtedness theretofore called for redemption, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

SECOND: **Principal or Redemption Price** – To the payment to the persons entitled thereto of the unpaid principal or redemption price of any Subordinated Bonds or Parity Subordinated Indebtedness which shall have become due, whether at maturity or by call for redemption or otherwise, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Subordinated Bonds and the Parity Subordinated Indebtedness due on any date, then to the payment thereof ratably, according to the amounts of principal or redemption price due on such date, to the persons entitled thereto, without any discrimination or preference.

(ii) if the principal of all of the Subordinated Bonds and the Parity Subordinated Indebtedness shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Subordinated Bonds and the Parity Subordinated Indebtedness without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Subordinated Bond or Parity Subordinated Indebtedness over any other Subordinated Bond or Parity Subordinated Indebtedness, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Subordinated Bonds and the Parity Subordinated Indebtedness.

2. If and whenever all overdue installments of interest on all Subordinated Bonds, together with the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums payable by the City under the Subordinated Resolution, including the principal and Redemption Price of and accrued unpaid interest on all Subordinated Bonds which shall then be payable, shall either be paid by or for the account of the City, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Subordinated Resolution or the

Subordinated Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over to the City all moneys, securities and funds then remaining unexpended in the hands of the Trustee in the Subordinated Indebtedness Fund (except moneys, securities and funds deposited or pledged, or required by the terms of the Resolution, this Subordinated Resolution or any Supplemental Resolution securing Subordinated Indebtedness to be deposited or pledged with the Trustee), and thereupon the City and the Trustee shall be restored, respectively, to their former positions and rights under the Subordinated Resolution. No such payment over to the City by the Trustee nor such restoration of the City and the Trustee to their former positions and rights shall extend to or affect any subsequent default under the Subordinated Resolution or impair any right consequent thereon.

SECTION 8.04. Remedies Not Exclusive. No remedy by the terms of the Subordinated Resolution conferred upon or reserved to the Holders of the Subordinated Bonds is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Subordinated Resolution or existing at law, including under the Act, or in equity or by statute on or after the date of adoption of the Subordinated Resolution.

SECTION 8.05. Subordinated Bonds Held by City Not Entitled to Distribution. No Subordinated Bonds owned or held by, for the account of or for the benefit of the City shall be deemed entitled to share in any payment or distribution provided in this Article VIII, provided that the Subordinated Bond Paying Agents shall be protected in making any such payment or distribution unless they shall have actual knowledge that the Subordinated Bonds in respect of which such payment or distribution is made are so owned or held.

SECTION 8.06. Effect of Waiver and Other Circumstances. 1. No delay or omission of any Holder of the Subordinated Bonds to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or be an acquiescence therein; and every power and remedy given by this Article to the Holders of the Subordinated Bonds may be exercised from time to time and as often as may be deemed expedient by the Holders of the Subordinated Bonds.

2. Prior to the declaration of maturity of the Subordinated Bonds as provided in Section 8.01, the Holders of not less than a majority in aggregate principal amount of the Subordinated Bonds at the time Outstanding, or their attorneys in fact duly authorized, may on behalf of the Holders of all of the Subordinated Bonds waive any past default under the Subordinated Resolution and its consequences, except a default in the payment of interest on or principal of or premium (if any) on any of the Subordinated Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 8.07. Notice of Default. 1. The City shall promptly mail written notice of the occurrence of any Event of Default to the Holders of Subordinated Bonds then Outstanding and to each Credit Enhancer, and, if Bearer Commercial Paper Notes shall be Outstanding, the City shall also publish such notice once a week for at least two successive weeks in an Authorized Newspaper.

2. Upon the occurrence of any Event of Default known to an officer of the Trustee in its Corporate Trust Department, the Trustee shall promptly notify the Subordinated Bond Registrar(s) of the occurrence of such Event of Default, and the Subordinated Bond Registrar(s) shall promptly mail notice of such Event of Default to the Holders of Subordinated Bonds then outstanding and to each Credit Enhancer, and, if Bearer Commercial Paper Notes shall be Outstanding, the Subordinated Bond Registrar(s) shall also publish such notice once a week for at least two successive weeks in an Authorized Newspaper.

ARTICLE IX
CONCERNING THE SUBORDINATED BOND FIDUCIARIES

SECTION 9.01. Subordinated Bond Paying Agents; Appointment and Acceptance of Duties. 1. The City shall appoint one or more Subordinated Bond Paying Agents for the Subordinated Bonds of each Series, and may at any time or from time to time appoint one or more other Subordinated Bond Paying Agents having the qualifications set forth in Section 9.08 for a successor Paying Agent.

2. Each Subordinated Bond Paying Agent shall signify its acceptance of the duties and obligations imposed upon it by the Subordinated Resolution by executing and delivering to the City a written acceptance thereof.

3. Unless otherwise provided in a Supplemental Subordinated Resolution, the offices of the Subordinated Bond Paying Agents are designated as the respective offices or agencies of the City for the payment of the interest on and principal or Redemption Price of the Subordinated Bonds.

SECTION 9.02. Responsibilities of Subordinated Bond Fiduciaries. The recitals herein and in the Subordinated Bonds contained shall be taken as the statements of the City, and no Subordinated Bond Fiduciary assumes any responsibility for the correctness of the same. No Subordinated Bond Fiduciary makes any representation as to the validity or sufficiency of the Subordinated Resolution or of any Subordinated Bonds issued thereunder or as to the security afforded by the Subordinated Resolution, and no Subordinated Bond Fiduciary shall incur any liability in respect thereof. The Subordinated Bond Registrar shall, however, be responsible for its representation contained in its certificate of authentication on the Subordinated Bonds. No Subordinated Bond Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid by such Subordinated Bond Fiduciary in accordance with the provisions of the Subordinated Resolution to or upon the order of the City or to any other Subordinated Bond Fiduciary. No Subordinated Bond Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect thereof, or to advance any of its own moneys, unless properly indemnified. No Subordinated Bond Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence, misconduct or default.

SECTION 9.03. Evidence on Which Subordinated Bond Fiduciaries May Act. 1. Each Subordinated Bond Fiduciary, upon receipt of any notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document furnished to it pursuant to any provision of the Subordinated Resolution, shall examine such instrument to determine whether it conforms to the requirements of the Subordinated Resolution and shall be protected in acting upon

any such instrument believed by it to be genuine and to have been signed or presented by the proper party or parties. Each Subordinated Bond Fiduciary may reasonably consult with counsel, who may or may not be of counsel to the City, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Subordinated Resolution in good faith and in accordance therewith.

2. Whenever any Subordinated Bond Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Subordinated Resolution, such matter (unless other evidence in respect thereof be therein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of an Authorized Officer of the City, and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions of the Subordinated Resolution upon the faith thereof; but in its discretion the Subordinated Bond Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as may seem reasonable to it.

3. Except as otherwise expressly provided in the Subordinated Resolution, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision thereof by the City to any Subordinated Bond Fiduciary shall be sufficiently executed when the same is executed in the name of the City by an Authorized Officer of the City.

SECTION 9.04. Compensation. Prior to its appointment, each Subordinated Bond Fiduciary shall file with the City a negotiated schedule of anticipated fees and charges for services to be performed pursuant to the Subordinated Resolution. The City shall pay to each Subordinated Bond Fiduciary from time to time pursuant to such schedule reasonable compensation for all services rendered under the Subordinated Resolution, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents, and other persons not regularly in its employ, incurred in and about the performance of its powers and duties under the Subordinated Resolution, and each Subordinated Bond Fiduciary shall have a lien therefor on any and all funds at any time held by it under the Subordinated Resolution.

SECTION 9.05. Certain Permitted Acts. Any Subordinated Bond Fiduciary may become the owner of any Subordinated Bonds, with the same rights it would have if it were not a Subordinated Bond Fiduciary. To the extent permitted by law, any Subordinated Bond Fiduciary may act as depositary for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Holders of the Subordinated Bonds or to effect or aid in any reorganization growing out of the enforcement of the Subordinated Bonds or the Subordinated Resolution, whether or not any such committee shall represent the Holders of a majority in principal amount of the Subordinated Bonds then Outstanding.

SECTION 9.06. Merger or Consolidation. Any company into which any Subordinated Bond Fiduciary may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Subordinated Bond Fiduciary may sell or transfer all or substantially all of its business, provided such company shall be qualified to perform all the duties imposed upon it by the Subordinated Resolution and shall be authorized by law to perform all such duties, shall be the successor to such Subordinated Bond Fiduciary without the execution or filing of any paper or the performance of any further act.

SECTION 9.07. Adoption of Authentication. In case any of the Subordinated Bonds contemplated to be issued under the Subordinated Resolution shall have been authenticated but not delivered, any successor Subordinated Bond Registrar may adopt the certificate of authentication of any predecessor Subordinated Bond Registrar so authenticating such Subordinated Bonds and deliver such Subordinated Bonds so authenticated; and in any case of the said Subordinated Bonds shall not have been authenticated, any successor Subordinated Bond Registrar may authenticate such Subordinated Bonds in the name of the predecessor Subordinated Bond Registrar, or in the name of the successor Subordinated Bond Registrar, and in all such cases such certificate shall have the full force which it is anywhere in said Subordinated Bonds or in the Subordinated Resolution provided that the certificate of the Subordinated Bond Registrar shall have.

SECTION 9.08. Resignation or Removal of Subordinated Bond Paying Agent and Appointment of Successor. 1. Any Subordinated Bond Paying Agent may at any time resign and be discharged of the duties and obligations created by the Subordinated Resolution by giving at least 60 days' written notice to the City, the Trustee, and the other Subordinated Bond Paying Agents. Any Subordinated Bond Paying Agent may be removed at any time by an instrument filed with such Subordinated Bond Paying Agent and the Trustee and signed by an Authorized Officer of the City. Any successor Subordinated Bond Paying Agent shall be appointed by the City and shall be an officer of the City, a transfer agent duly registered pursuant to the Securities Exchange Act of 1934, as amended, or a bank or trust company organized under the laws of any state of the United States or national banking association, having capital stock, surplus and undivided earnings aggregating at least $50,000,000, and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Subordinated Resolution.

2. In the event of the resignation or removal of any Subordinated Bond Paying Agent, such Subordinated Bond Paying Agent shall pay over, assign and deliver any moneys held by it as Subordinated Bond Paying Agent to its successor, or if there be no successor, to the City. In the event that for any reason there shall be a vacancy in the office of any Subordinated Bond Paying Agent, the City shall act as such Subordinated Bond Paying Agent.

SECTION 9.09. Subordinated Bond Registrar. Any Subordinated Bond Registrar may at any time resign and be discharged of the duties and obligations created by the Subordinated Resolution by giving at least 60 days' written notice to the City and the Trustee. The Subordinated Bond Registrar may be removed at any time by an instrument filed with such Subordinated Bond Registrar and the Trustee and signed by an Authorized Officer of the City, provided that a successor Subordinated Bond Registrar has been appointed by the City.

ARTICLE X
SUPPLEMENTAL SUBORDINATED RESOLUTIONS

SECTION 10.01. Supplemental Subordinated Resolutions Effective Upon Filing With the Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Subordinated Resolution of the City supplemental to the Subordinated Resolution may be adopted, which, upon the filing with the Trustee and the Co-Trustee of a copy thereof certified by an Authorized Officer of the City, shall be fully effective in accordance with its terms:

(1) To close the Subordinated Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Subordinated Resolution on, the authentication and delivery of Subordinated Bonds or the issuance of other evidences of indebtedness;

(2) To add to the covenants and agreements of the City in the Subordinated Resolution, other covenants and agreements to be observed by the City which are not contrary to or inconsistent with the Subordinated Resolution as theretofore in effect;

(3) To add to the limitations and restrictions in the Subordinated Resolution, other limitations and restrictions to be observed by the City which are not contrary to or inconsistent with the Subordinated Resolution as theretofore in effect;

(4) To authorize Subordinated Bonds of a Series and, in connection therewith, specify and determine the matters and things referred to in Section 2.02, Section 2.03, Section 2.04 or Section 2.05, and also any other matters and things relative to such Subordinated Bonds which are not contrary to or inconsistent with the Subordinated Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such Subordinated Bonds, or to reduce the authorized amount of the Subordinated Bonds of such Series by an amount not greater than the aggregate principal amount of the Subordinated Bonds of such Series that, at the time of such adoption, have not yet been issued;

(5) To provide for the issuance, execution, delivery, authentication, payment, registration, transfer and exchange of Subordinated Bonds in coupon form payable to bearer or in uncertificated form, and, in connection therewith, to specify and determine any matters and things relative thereto;

(6) To confirm, as further assurance, any security interest, pledge or assignment under, and the subjection to any security interest, pledge or assignment created or to be created by, the Subordinated Resolution, of any moneys, securities or funds; and

(7) To modify any of the provisions of the Subordinated Resolution in any other respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Subordinated Bonds of each Series Outstanding at the date of the adoption of such Supplemental Subordinated Resolution shall cease to be Outstanding, and (ii) such Supplemental Subordinated Resolution shall be specifically referred to in the text of all Subordinated Bonds of any Series authenticated and delivered after the date of the adoption of such Supplemental Subordinated Resolution and of Subordinated Bonds issued in exchange therefor or in place thereof.

SECTION 10.02. Supplemental Subordinated Resolutions Effective Upon Delivery of Opinion of Counsel as to No Material Adverse Effect. For any one or more of the following purposes and at any time or from time to time, a Supplemental Subordinated Resolution supplemental to the Subordinated Resolution may be adopted, which, upon (i) 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 (in rendering such opinion, such counsel may rely on such certifications of (a) any banking or financial institution familiar with the financial affairs of the City relating to the System, as to financial and economic matters, (b) the Consulting Engineer, as to matters within its field of expertise and (c) such other experts, as to matters within their fields of expertise, as it, in its reasonable judgment, determines necessary or appropriate), (ii) the filing with the Trustee and the Co-Trustee, if any, of a copy thereof certified by an Authorized Officer of the City and (iii) compliance with the provisions of Section 10.04, shall be fully effective in accordance with its terms:

(1) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Subordinated Resolution;

(2) To insert such provisions clarifying matters or questions arising under the Subordinated Resolution as are necessary or desirable and are not contrary to or inconsistent with the Subordinated Resolution as theretofore in effect; or

(3) To make any other modification or amendment of the Subordinated Resolution which such counsel shall in its reasonable judgment determine will not have a material adverse effect on the interests of the Holders of Outstanding Subordinated Bonds.

Notwithstanding any other provision of this Subordinated Resolution, in determining whether the interests of the Holders of Outstanding Subordinated Bonds are materially adversely affected, such counsel shall consider the effect on the Holders of any Subordinated Bonds for which Credit Enhancement has been provided without regard to such Credit Enhancement.

SECTION 10.03. Supplemental Subordinated Resolutions Effective With Consent of Holders of the Subordinated Bonds. At any time or from time to time, a Supplemental Subordinated Resolution supplemental to the Subordinated Resolution may be adopted subject to consent by Holders of the Subordinated Bonds in accordance with and subject to the provisions of Article XI, which Supplemental Subordinated Resolution, upon compliance with the provisions of said Article XI, shall become fully effective in accordance with its terms as provided in said Article XI.

Subordinated Bondholders shall be deemed to have provided consent pursuant to this Section 10.03 if the offering document for such Subordinated Bonds expressly describes the Supplemental Resolution and the amendments to this Subordinated Resolution contained therein and states by virtue of the Bondholders' purchase of such Subordinated Bonds, the Subordinated Bondholders are deemed to have notice of, and consented to, such Supplemental Resolution and amendments.

Notwithstanding any other provision of this Section 10.03, to the extent permitted by law, at the time of issuance or remarketing of Subordinated Bonds under this Resolution, a broker, dealer or municipal securities dealer, serving as underwriter or remarketing agent for such Subordinated Bonds, or as agent for or in lieu of Holders of the Subordinated Bonds, may provide consent to amendments to this Subordinated Resolution pursuant to this Section 10.03.

SECTION 10.04. General Provisions. 1. The Subordinated Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article X and Article XI.

2. Any Supplemental Subordinated Resolution referred to and permitted or authorized by Sections 10.01 or 10.02 may be adopted by the City without the consent of any of the Holders of the Subordinated Bonds, but shall become effective only on the conditions, to the extent and at the time provided in said Sections. The copy of every Supplemental Subordinated Resolution when filed with the Trustee shall be accompanied by an Opinion of Counsel stating that such Supplemental Subordinated Resolution has been duly and lawfully adopted in accordance with the provisions of the Subordinated Resolution, is authorized or permitted by the Subordinated Resolution, and is valid and binding upon the City and enforceable in accordance with its terms.

3. The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Subordinated Resolution referred to and permitted or authorized by Sections 10.01 or 10.02 and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an Opinion of Counsel that such Supplemental Subordinated Resolution is authorized or permitted by the provisions of the Subordinated Resolution.

4. No Supplemental Subordinated Resolution shall change or modify any of the rights or obligations of any Subordinated Bond Fiduciary without its written assent thereto.

ARTICLE XI
AMENDMENTS

SECTION 11.01. Mailing and Publication. 1. Any provision in this Article for the mailing of a notice or other paper to Holders of the Subordinated Bonds shall be fully complied with if it is mailed postage prepaid or provided electronically only (i) to each Holder of affected Subordinated Bonds then Outstanding at such Holder's address, if any, appearing upon the registry books of the City, (ii) to each Holder of any affected Bearer Commercial Paper Note who shall have filed with the City an address for notices, and (iii) to the Trustee.

2. Any provision in this Article for publication of a notice or other matter shall require the publication thereof only in an Authorized Newspaper.

SECTION 11.02. Powers of Amendment. Any modification or amendment of the Subordinated Resolution and of the rights and obligations of the City and of the Holders of the Subordinated Bonds thereunder, in any particular, may be made by a Supplemental Subordinated Resolution, with the written consent given as provided in Section 10.03 (i) of the Holders of not less than a majority in principal amount of the Subordinated Bonds Outstanding affected by the modification or amendment at the time such consent is given, and (ii) in case the modification or amendment changes the terms of any Sinking Fund Installment, of the Holders of not less than a majority in principal amount of the Subordinated Bonds of the particular Series and maturity entitled to such Sinking Fund Installment and Outstanding at the time such consent is given; *provided, however*, that if such modification or amendment will, by its terms, not take effect so long as any Subordinated Bonds of any specified like Series and maturity remain Outstanding the consent of the Holders of such Subordinated Bonds shall not be required and such Subordinated Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Subordinated Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Subordinated Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption

Price thereof or in the rate of interest thereon without the consent of the Holder of such Subordinated Bond, or shall reduce the percentages or otherwise affect the classes of Subordinated Bonds the consent of the Holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Subordinated Bond Fiduciary without its written assent thereto. For the purposes of this Section, a Series of Subordinated Bonds shall be deemed to be affected by a modification or amendment of the Subordinated Resolution if the same adversely affects or diminishes in any material respect the rights of the Holders of Subordinated Bonds of such Series. The City may in its discretion determine whether or not in accordance with the foregoing powers of amendment Subordinated Bonds of any particular Series or maturity or any particular Commercial Paper Notes or Medium-Term Notes would be materially adversely affected by any modification or amendment of the Subordinated Resolution and any such determination shall, absent manifest error, be binding and conclusive on the City and all Holders of Subordinated Bonds. For purposes of this Section, the Holders of any Subordinated Bonds may include the initial Holders thereof, regardless of whether such Subordinated Bonds are being held for resale and regardless of whether such Subordinated Bonds may thereafter have been transferred to subsequent owners. Subordinated Bonds as used in this Article XI shall not include Special Subordinated Bonds.

SECTION 11.03. Consent of Holders. The City may at any time adopt a Supplemental Subordinated Resolution making a modification or amendment permitted by the provisions of Section 11.02 to take effect when and as provided in this Section. A copy of such Supplemental Subordinated Resolution (or brief summary thereof or reference thereto), together with a request to affected Holders of the Subordinated Bonds for their consent thereto, shall be mailed by the City to affected Holders of the Subordinated Bonds (but failure of any affected Holder of a Subordinated Bond to receive such copy and request shall not affect the validity of the Supplemental Subordinated Resolution when consented to as in this Section provided); *provided, however*, that if any Bearer Commercial Paper Notes shall then be Outstanding, the City shall also publish such copy, summary or reference and such request for consent in an Authorized Newspaper at least once a week for two successive weeks. Such Supplemental Subordinated Resolution shall not be effective unless and until there shall have been filed with the Trustee (a) the written consents of Holders of the percentages of affected Outstanding Subordinated Bonds specified in Section 11.02 and (b) an Opinion of Counsel stating that such Supplemental Subordinated Resolution has been duly and lawfully adopted and filed by the City in accordance with the provisions of the Subordinated Resolution and the Resolution, is authorized or permitted by the Subordinated Resolution and the Resolution, and is valid and binding upon the City and enforceable in accordance with its terms. It shall not be necessary that the consents of Holders of Subordinated Bonds approve the particular form of wording of the proposed modification or amendment or of the proposed Supplemental Subordinated Resolution effecting such modification or amendment, but it shall be sufficient if such consents approve the substance of the proposed amendment or modification. Each such consent shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Subordinated Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 12.02. A certificate or certificates executed by an Authorized Officer of the City and filed with the Trustee and the Co-Trustee, if any, stating that such Officer has examined such proof and that such proof is sufficient in accordance with Section 12.02 shall be prima facie evidence that the consents have been given by the Holders of the Subordinated Bonds described in such certificate or certificates. Any such consent shall be irrevocable and binding upon the Holder of the affected Subordinated Bonds giving such consent and, anything in Section 12.02 to the contrary notwithstanding, upon any subsequent Holder of

such affected Subordinated Bonds and of any Subordinated Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof). At any time after the Holders of the required percentages of affected Subordinated Bonds shall have filed their consents to the Supplemental Subordinated Resolution, an Authorized Officer of the City may make and file with the Trustee and the Co-Trustee, if any, a written statement that the Holders of such required percentages of affected Subordinated Bonds have filed such consents. Such written statements shall be prima facie evidence that such consents have been so filed. A record, consisting of the certificates or statements required or permitted by this Section 11.03 to be made by the City, shall be proof of the matters therein stated. Such Supplemental Subordinated Resolution making such amendment or modification shall be deemed conclusively binding upon the City, the Subordinated Bond Fiduciaries and the Holders of all Subordinated Bonds immediately upon the filing with the Trustee of the proof of the mailing and, if so required, publication of such last mentioned notice.

SECTION 11.04. Modifications or Amendments by Unanimous Consent. The terms and provisions of the Subordinated Resolution and the rights and obligations of the City and of the Holders of the Subordinated Bonds thereunder may be modified or amended in any respect upon the adoption and filing by the City of a Supplemental Subordinated Resolution and the consent of the Holders of all of the affected Subordinated Bonds then Outstanding, such consent to be given as provided in Section 11.03 except that no notice to affected Holders by mailing or, if so provided, publication shall be required; *provided, however*, that no such modification or amendment shall change or modify any of the rights or obligations of any Subordinated Bond Fiduciary without the filing with the City and the Trustee of the written assent thereto of such Subordinated Bond Fiduciary in addition to the consent of the Holders of the Subordinated Bonds.

SECTION 11.05. Exclusion of Subordinated Bonds. Subordinated Bonds owned or held by or for the account of the City shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Subordinated Bonds provided for in this Article XI, and the City shall not be entitled with respect to such Subordinated Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, the City shall furnish the Trustee a certificate of an Authorized Officer of the City, upon which the Trustee may rely, describing all Subordinated Bonds so to be excluded.

SECTION 11.06. Notation on Subordinated Bonds. Subordinated Bonds authenticated and delivered after the effective date of any action taken as in Article X or this Article XI provided may, if the City so determines, bear a notation by endorsement or otherwise in form approved by the City as to such action, and in that case upon demand of the Holder of any Subordinated Bond Outstanding at such effective date and presentation of such Holder's Subordinated Bond for the purpose at the office of the Subordinated Bond Registrar or upon any transfer or exchange of any Subordinated Bond Outstanding at such effective date, suitable notation shall be made on such Subordinated Bond or upon any Subordinated Bond issued upon any such transfer or exchange by the Subordinated Bond Registrar as to any such action. If the City shall so determine, new Subordinated Bonds so modified as in the opinion of the City to conform to such action shall be prepared, authenticated and delivered and upon demand of the Holder of any Subordinated Bond then Outstanding shall be exchanged, without cost to such Holder, for Subordinated Bonds of the same Series, maturity and interest rate then Outstanding, upon surrender of such Subordinated Bonds. Any action taken as in Article X or this Article XI provided shall be effective and binding upon all Holders of Subordinated Bonds notwithstanding that the notation is not endorsed on all Subordinated Bonds.

ARTICLE XII
MISCELLANEOUS

SECTION 12.01. Defeasance. 1. If the City shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of all Subordinated Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Subordinated Resolution, then the pledge of moneys, securities and funds pledged under the Subordinated Resolution and all covenants, agreements and other obligations of the City to the Holders of the Subordinated Bonds, shall thereupon cease, terminate and become void and be discharged and satisfied.

If the City shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of any Outstanding Subordinated Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Subordinated Resolution, such Subordinated Bonds shall cease to be entitled to any lien, benefit or security under the Subordinated Resolution, and all covenants, agreements and obligations of the City to the Holders of such Subordinated Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

2. Subordinated Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Subordinated Bond Paying Agents (through deposit by the City of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in paragraph 1 of this Section. In addition, any Outstanding Subordinated Bonds or portions thereof in authorized denominations shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in paragraph 1 of this Section if the City shall have satisfied all of the conditions precedent to such Subordinated Bonds being so deemed to have been paid set forth in the Supplemental Subordinated Resolution authorizing the Series of which such Subordinated Bonds are a part.

3. Anything in the Subordinated Resolution to the contrary notwithstanding, any moneys held by a Subordinated Bond Fiduciary in trust for the payment and discharge of any of the Subordinated Bonds which remain unclaimed for six years after the date when such Subordinated Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Subordinated Bond Fiduciary at such date, or for six years after the date of deposit of such moneys if deposited with the Subordinated Bond Fiduciary after the said date when such Subordinated Bonds become due and payable, shall, at the written request of the City, be repaid by the Subordinated Bond Fiduciary to the City, as its absolute property and free from trust, and the Subordinated Bond Fiduciary shall thereupon be released and discharged with respect thereto and the Holders of such Subordinated Bonds shall look only to the City for the payment of such Subordinated Bonds; *provided, however*, that before being required to make any such payment to the City, the Subordinated Bond Fiduciary shall, at the expense of the City, comply with any publication requirements required under Florida law as certified by the City.

SECTION 12.02. Evidence of Signatures of Holders and Ownership of Subordinated Bonds. 1. Any request, consent, revocation of consent or other instrument which the Subordinated Resolution may require or permit to be signed and executed by the Holders of the Subordinated

Bonds may be in one or more instruments of similar tenor and shall be signed or executed by such Holders in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Subordinated Bonds, shall be sufficient for any purpose of the Subordinated Resolution (except as otherwise therein expressly provided) if made in the following manner, or in any other manner satisfactory to the City, which may nevertheless in its discretion require further or other proof in cases where it deems the same desirable:

(1) The fact and date of the execution by any Holder of the Subordinated Bonds or such Holder's attorney of such instruments may be proved by a guarantee of the signature thereon by a bank or trust company or by the certificate of any notary public or other officer authorized to take acknowledgments of deeds, that the person signing such request or other instrument acknowledged to such officer the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. Where such execution is by an officer of a corporation or association or a member of a partnership, on behalf of such corporation, association or partnership, such signature guarantee, certificate or affidavit shall also constitute sufficient proof of such officer's authority.

(2) The amount of Bearer Commercial Paper Notes held by any person executing any instrument as a Holder, the date of such person's holding such Bearer Commercial Paper Notes, and the numbers and other identification thereof, may be proved by a certificate, which need not be acknowledged or verified, in form satisfactory to the City, executed by the City or by a member of a financial firm or by an officer of a bank, trust company, insurance company, or financial corporation or other depositary wherever situated, or by a registered representative of a securities firm or corporation which is a member of the National Association of Securities Dealers, Inc., showing at the date therein mentioned that such person exhibited to such member, officer or registered representative or had on deposit with such depositary the Bearer Commercial Paper Notes described in such certificate. Such certificate may be given by a member of a financial firm or by an officer of any bank, trust company, insurance company or financial corporation or depositary or by a registered representative of a securities firm or corporation which is a member of the National Association of Securities Dealers, Inc. with respect to Bearer Commercial Paper Notes owned by it. In addition to the foregoing provisions, the City may from time to time make such reasonable regulations as it may deem advisable permitting other proof of holding of Bearer Commercial Paper Notes.

2. The ownership of Subordinated Bonds (other than Bearer Commercial Paper Notes) and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

3. Any request or consent by the Holder of any Subordinated Bond shall bind all future Holders of such Subordinated Bond in respect of anything done or suffered to be done by the City or any Subordinated Bond Fiduciary in accordance therewith.

SECTION 12.03. Moneys Held for Particular Subordinated Bonds. The amounts held by any Subordinated Bond Fiduciary for the payment of the interest, principal or Redemption Price due on any date with respect to particular Subordinated Bonds shall, on and after such date and

pending such payment, be set aside on its books and held by it in trust for the Holders of the Subordinated Bonds entitled thereto.

SECTION 12.04. Preservation and Inspection of Documents. All documents received by any Subordinated Bond Fiduciary under the provisions of the Subordinated Resolution shall be retained in its possession and shall be subject at all reasonable times to the inspection of the City, any other Subordinated Bond Fiduciary and any Holder of the Subordinated Bonds and their agents and their representatives, any of whom may make copies thereof.

SECTION 12.05. Parties Interested Herein. Nothing in the Subordinated Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person or corporation, other than the City, the Subordinated Bond Fiduciaries, the Holders of the Subordinated Bonds and any Credit Enhancer, any right, remedy or claim under or by reason of the Subordinated Resolution or any covenant, condition or stipulation thereof; and all the covenants, stipulations, promises and agreements in the Subordinated Resolution contained by and on behalf of the City shall be for the sole and exclusive benefit of the City, the Subordinated Bond Fiduciaries, and the Holders of the Subordinated Bonds.

SECTION 12.06. No Recourse on Subordinated Bonds. No officer, agent or employee of the City shall be individually or personally liable for the payment of the principal or Redemption Price or interest on the Subordinated Bonds.

SECTION 12.07. Publication of Notice; Suspension of Publication. 1. Any publication to be made under the provisions of the Subordinated Resolution in successive weeks or on successive dates may be made in each instance upon any Business Day of the week and need not be made in the same Authorized Newspaper for any or all of the successive publications but may be made in different Authorized Newspapers.

2. If, because of the temporary or permanent suspension of the publication or general circulation of any of the Authorized Newspapers or for any other reason, it is impossible or impractical to publish any notice pursuant to the Subordinated Resolution in the manner herein provided, then such publication in lieu thereof shall constitute a sufficient publication of such notice.

SECTION 12.08. Action by the Credit Enhancer When Action by Bondholders Required. If not in default in respect of any of its obligations with respect to Credit Enhancement for the Subordinated Bonds of a Series, or a maturity within a Series, the Credit Enhancer for, and not the actual Holders of, the Subordinated Bonds of a Series, or a maturity within a Series, for which such Credit Enhancement is being provided, shall be deemed to be the Holder of Subordinated Bonds of any Series, or maturity within a Series, as to which it is the Credit Enhancer at all times for the purpose of (i) giving any approval or consent to the effectiveness of any Supplemental Subordinated Resolution or any amendment, change or modification of this Subordinated Resolution as specified in Sections 10.03, 11.02, 11.03 and 11.04 or any other provision hereof, which requires the written approval or consent of Holders; *provided, however*, that the provisions of this Section shall not apply to any change in the terms of redemption or maturity of the principal of any Outstanding Subordinated Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon, or shall reduce the percentages or otherwise affect the classes of Subordinated

Bonds the consent of the Holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Subordinated Bond Fiduciary without its written assent thereto and (ii) giving any approval or consent, exercising any remedies or taking any other action in accordance with the provisions of Article VIII hereof.

SECTION 12.09. Severability of Invalid Provisions. If any one or more of the covenants or agreements provided in the Subordinated Resolution on the part of the City or any Subordinated Bond Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed severable from the remaining covenants and agreements, and shall in no way affect the validity of the other provisions of the Subordinated Resolution.

SECTION 12.10. Holidays. Except as may be otherwise provided in a Supplemental Subordinated Resolution, if the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Subordinated Resolution, shall be a legal holiday or a day on which banking institutions in the cities in which are located the principal offices of the Trustee and the Subordinated Bond Paying Agents are authorized by law to remain closed, such payment may be made or act performed or right exercised on the next succeeding day not a legal holiday or a day on which such banking institutions are authorized by law to remain closed, with the same force and effect as if done on the nominal date provided in the Subordinated Resolution, and no interest shall accrue for the period after such nominal date.

SECTION 12.11. Defeasance Depositories. Notwithstanding anything to the contrary herein, amounts required to be deposited with the Trustee for the defeasance of Subordinated Bonds may be deposited with a Depository who has agreed to hold such amounts in escrow for the benefit of such defeased Subordinated Bonds.

ARTICLE XIII
EFFECTIVE DATE

SECTION 13.01. Effective Date. This Second Amended and Restated Subordinated Utilities System Revenue Bond Resolution shall become effective on the Effective Date, upon the satisfaction of the conditions to its effectiveness set forth in Article X of the Resolution and Articles X and XI of the Original Subordinated Resolution.

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EXHIBIT "B"

REOFFERING MEMORANDUM

REOFFERING MEMORANDUM DATED _____, 2018

REMARKETING: NOT NEW ISSUE - BOOK-ENTRY ONLY

On the date of issuance of the 2007 Series A Bonds described herein, Orrick, Herrington & Sutcliffe LLP, as Bond Counsel to the City (the "Initial Bond Counsel"), rendered an opinion that, based upon an analysis of then existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2007 Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. The Initial Bond Counsel was of the further opinion that interest on the 2007 Series A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although the Initial Bond Counsel observed that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. The Initial Bond Counsel also was of the opinion that the 2007 Series A Bonds and the interest thereon are exempt from taxation under existing laws of the State of Florida, except as to estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations, banks and savings associations. The Initial Bond Counsel expressed no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2007 Series A Bonds. On the date of the mandatory tender of the 2007 Series A Bonds referred to herein, Holland & Knight LLP, Lakeland, Florida, Bond Counsel to the City ("Bond Counsel") rendered an opinion to the effect that the mandatory tender will not, in and of itself, adversely affect the exclusion of interest on the 2007 Series A Bonds from gross income for purposes of federal tax taxation. Bond Counsel, however, is not rendering any opinion on the current tax status of the 2007 Series A Bonds. See "TAX MATTERS" herein.

$139,505,000
City of Gainesville, Florida
Variable Rate
Utilities System Revenue Bonds,
2007 Series A
(CUSIP No. 362848 PQ0)

RATINGS: See "RATINGS" herein

Original Issue Date: March 1, 2007 **Due: October 1, 2036**

The purpose of this Reoffering Memorandum is to provide information in connection with the mandatory tender of $139,505,000 in aggregate principal amount of Variable Rate Utilities System Revenue Bonds, 2007 Series A (the "2007 Series A Bonds") heretofore issued by the City of Gainesville, Florida (the "City").

The 2007 Series A Bonds are registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2007 Series A Bonds. Purchases of 2007 Series A Bonds may be made in book-entry form only, in the Authorized Denominations referred to herein. See "—Book-Entry Only System" herein. U.S. Bank National Association, New York, New York is Trustee, Paying Agent and Bond Registrar under the Resolution (as defined herein) and has been appointed by the City as the Tender Agent for 2007 Series A Bonds.

The 2007 Series A Bonds bear interest at variable rates, as more fully described herein. The 2007 Series A Bonds currently bear interest at the Weekly Rates (as defined herein). While the 2007 Series A Bonds bear interest at Weekly Rates, interest is payable on the first Business Day (as defined herein) of each calendar month. As more fully described herein, the Interest Mode (as defined herein) applicable to the 2007 Series A Bonds may be changed at the election of the City.

The 2007 Series A Bonds are subject to optional and mandatory redemption prior to maturity and to optional and mandatory tender for purchase as set forth herein.

Liquidity support in connection with tenders for purchase of the 2007 Series A Bonds (in an amount equal to the principal amount thereof plus 36 days' interest thereon computed at a rate per annum of 12% and on the basis of a 365-day year) is provided by State Street Bank and Trust Company (the "Bank"), pursuant to a standby bond purchase agreement between the Bank and the City (the "Liquidity Facility"). See "LIQUIDITY FACILITY" and "THE BANK" herein. **The obligation of the Bank to purchase 2007 Series A Bonds under the Liquidity Facility will, however, be subject to certain conditions, and such obligation may be terminated or suspended without prior notice or payment thereunder under certain circumstances.** The Liquidity Facility has a stated termination date of **April 1, 2021**. The purchase price of 2007 Series A Bonds tendered or deemed tendered for purchase is payable solely from the proceeds of the remarketing thereof and moneys drawn under the Liquidity Facility, and is not payable from any funds of the City.

The 2007 Series A Bonds are direct and special obligations of the City and do not constitute a general indebtedness or a pledge of the full faith and credit or the taxing power of the City within the meaning of any constitutional or statutory provision or limitation of indebtedness, nor constitute a lien on any property of or in the City other than the Trust Estate (as defined herein) as provided in the Resolution.

Certain legal matters were passed upon in connection with the original issuance of the 2007 Series A Bonds by Orrick, Herrington & Sutcliffe LLP, New York, New York, former Bond Counsel to the City, and by Marion J. Radson, Esq., former City Attorney of the City. Certain legal matters in connection with the mandatory tender will be passed upon for the City by Holland & Knight LLP, Lakeland, Florida Bond Counsel to the City, and by Nicolle M. Shalley, Esq., City Attorney. Bryant Miller Olive P.A. is Disclosure Counsel to the City.

Goldman Sachs & Co. LLC
as Remarketing Agent

CITY OF GAINESVILLE, FLORIDA

ELECTED OFFICIALS[1]

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

[1] 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 2007 Series A Bonds, other than as contained in this Reoffering Memorandum, and, if given or made, such information or representations must not be relied upon as having been authorized by the City. This Reoffering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2007 Series A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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

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

All summaries set forth or incorporated herein of documents and agreements are qualified in their entirety by reference to such documents and agreements, and all summaries herein of the 2007 Series A Bonds are qualified in their entirety by reference to the form thereof included in the aforesaid documents and agreements.

NO REGISTRATION STATEMENT RELATING TO THE 2007 Series A BONDS HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC") OR WITH ANY STATE SECURITIES COMMISSION. IN MAKING ANY INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATIONS OF THE CITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE 2007 Series A BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SEC OR ANY STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. THE FOREGOING AUTHORITIES HAVE NOT PASSED UPON THE ACCURACY OR ADEQUACY OF THIS REOFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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

THIS REOFFERING MEMORANDUM DOES NOT CONSTITUTE A CONTRACT BETWEEN THE CITY AND ANY ONE OR MORE OF THE OWNERS OF THE 2007 Series A BONDS.

TABLE OF CONTENTS

REOFFERING MEMORANDUM
RELATING TO
$139,505,000
CITY OF GAINESVILLE, FLORIDA

VARIABLE RATE UTILITIES SYSTEM REVENUE BONDS,
2007 Series A

INTRODUCTORY STATEMENT

General

This Reoffering Memorandum, which includes the cover page and inside cover page hereof and the appendices attached hereto, provides certain information in connection with the mandatory tender and reoffering in the secondary market from time to time of $139,505,000 in aggregate principal amount of Variable Rate Utilities System Revenue Bonds, 2007 Series A (the "2007 Series A Bonds") previously issued by the City of Gainesville, Florida ("Gainesville" or the "City"). The City's mailing address is Utilities Administration Building, 301 SE 4th Avenue, Gainesville, Florida 32601. The City can be contacted by telephone at (352) 334-3434.

The City, located in Alachua County in north-central Florida (the "County"), is a municipal corporation of the State of Florida (the "State"), organized and existing under the laws of the State including the City's Charter, Chapter 90-394, Laws of Florida, 1990, as amended (the "Charter"). The 2007 Series A Bonds were issued pursuant to the Amended and Restated Utilities System Revenue Bond Resolution adopted by the City on June 6, 1983, as amended, supplemented and restated (the "Resolution"), including as supplemented by the Eighteenth Supplemental Utilities System Revenue Bond Resolution (the "Eighteenth Supplemental Resolution"), authorizing the 2007 Series A Bonds, adopted by the City on January 28, 2008; Chapter 166, Part II, Florida Statutes; and the Charter. Resolution No. 170395, incorporating by reference a resolution captioned "Second Amended and Restated Utilities System Revenue Bond Resolution" adopted by the City on September 21, 2017 contains certain amendments to the Resolution which will become effective only after consents of the holders of at least a majority of the principal amount of Outstanding Bonds and of certain parties have been obtained (the "Springing Amendments"). See "SPRINGING AMENDMENTS" herein, "APPENDIX C-1 – Composite of the Resolution" and "APPENDIX C-2 – Springing Amendments to the Resolution" attached hereto for a more complete description of such amendments. **By purchasing the 2007 Series A Bonds, the Registered Owners and Beneficial Owners thereof shall be deemed to have consented in writing to such Springing Amendments as further described herein.** U.S. Bank National Association, currently is Trustee, Paying Agent and Bond Registrar under the Resolution.

The 2007 Series A Bonds are payable from and secured on a parity with all other bonds issued under the Resolution by a pledge of and lien on the Trust Estate (hereinafter defined). As of April 1, 2018, there were $1,534,340,000 aggregate principal amount of Bonds Outstanding (and as defined in) under the Resolution. The 2007 Series A Bonds were issued by the City to finance or refinance costs of acquisition and construction of certain improvements to the electric system, natural gas system, water system, wastewater system and telecommunications system owned by the City and operated as a single combined public utility (the "System" or "Gainesville Regional Utilities" or "GRU").

The 2007 Series A Bonds constitute "Bonds" within the meaning of the Resolution. The 2007 Series A Bonds, the Bonds Outstanding on the date of this Reoffering Memorandum and any additional Bonds (excluding Subordinated Indebtedness) which may be issued in the future are referred to herein collectively as the "Bonds."

For a more detailed discussion of the City's outstanding debt and its plan of financing, see "THE SYSTEM -- Outstanding Debt" herein and "THE SYSTEM -- Additional Financing Requirements" herein. APPENDIX D hereto shows total debt service requirements on all Bonds Outstanding as of the date of this Reoffering Memorandum.

The City covenants in the Resolution to collect rates sufficient so that the Revenues (as defined in the Resolution) of the System are expected to yield Net Revenues (as defined in the Resolution) which shall be equal to at least 1.25 times the Aggregate Debt Service (as defined in the Resolution) on the Bonds for the forthcoming twelve-month period. Additional Bonds may be issued under the Resolution on a parity with the 2007 Series A Bonds subject to certain conditions provided in the Resolution.

The purchase price for 2007 Series A Bonds tendered or deemed tendered for purchase (see "THE 2007 SERIES A BONDS – Optional Tender for Purchase", "– Mandatory Tender for Purchase" and "– Remarketing and Purchase Price" herein) is payable solely from the sources described under the caption "THE 2007 SERIES A BONDS – Remarketing and Purchase Price" herein, and is not payable from any funds of the City.

In addition to its Outstanding Bonds, as of April 1, 2018, the City also had outstanding $45,000,000 in aggregate principal amount of its Utilities System Commercial Paper Notes, Series C (the "Series C CP Notes"). The Series C CP Notes are authorized to be issued in an aggregate principal amount outstanding at any time not to exceed $85,000,000. The City also has authorized the issuance of its Utilities System Commercial Paper Notes, Series D (the "Series D Taxable CP Notes" and, together with the Series C CP Notes, the "CP Notes"), which are authorized to be issued in an aggregate principal amount outstanding at any time not to exceed $25,000,000. As of April 1, 2018, the City had outstanding $8,000,000 in aggregate principal amount of its Series D Taxable CP Notes. The CP Notes constitute Subordinated Indebtedness under (and as defined in) the Resolution, and are issued pursuant to the Amended and Restated Subordinated Utilities System Revenue Bond Resolution adopted by the City on December 8, 2003, as heretofore amended, supplemented and restated. Subordinated Indebtedness is subordinate in all respects to Bonds issued under the Resolution. With respect to the City's Series C CP Notes, the City intends to issue an additional $40,000,000 in aggregate principal amount of Series C CP Notes (the "Series 2018 Notes") to finance a portion of the Cost of Acquisition and Construction of the System. Additionally, the City intends on amending the Series C CP Notes to increase the amount allowed outstanding at any time from $85,000,000 to $125,000,000 and to extend the CP Notes program for an additional thirty (30) years.

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 as Subordinated Indebtedness to finance the Cost of Acquisition and Construction of the System (the "SunTrust Loan").

Liquidity Support for the 2007 Series A Bonds

Liquidity support in connection with tenders for purchase of 2007 Series A Bonds currently is provided by State Street Bank and Trust Company (the "Bank"), pursuant to a standby bond purchase agreement, dated as of February 21, 2018, between the City and the Bank (the "Liquidity Facility").

The Liquidity Facility has a stated termination date of April 1, 2021 (such date, as the same may be extended as provided in the Liquidity Facility, is referred to herein as the Liquidity Facility's "Stated Termination Date"). The Liquidity Facility contains provisions for renewal, in the sole discretion of the Bank.

With respect to the 2007 Series A Bonds, the Eighteenth Supplemental Resolution contains provisions for obtaining a Substitute Liquidity Facility (as defined in APPENDIX C hereto) in substitution for the Liquidity Facility then in effect. See "THE 2007 SERIES A BONDS – Substitution of Liquidity Facility" herein.

Remarketing Agent

Goldman Sachs & Co. LLC (formerly named Goldman, Sachs & Co.) ("Goldman Sachs") is the remarketing agent for the 2007 Series A Bonds pursuant to a remarketing agreement, dated as of February 1, 2008, between Goldman Sachs and the City (the "Remarketing Agreement").

Tender Agent

U.S. Bank National Association, New York, New York ("U.S. Bank"), is the tender agent for the 2007 Series A Bonds (in such capacity, the "Tender Agent"). U.S. Bank has entered into a tender agency agreement with the City, dated as of March 1, 2007, with respect to the 2007 Series A Bonds (the "Tender Agency Agreement").

The City and the System

For general information with respect to the City see "APPENDIX A – General Information Regarding the City" attached hereto. For information with respect to the electric system, natural gas system, water system, wastewater system and telecommunications system owned by the City and operated as a single combined public utility (the "System"), including the service areas, history, organization, operations and management, regulatory matters, capital improvement program, additional financing requirements and historical financial information, see "THE SYSTEM" herein.

No Continuing Disclosure Undertaking

Except as described below, the City has not committed to provide continuing disclosure with respect to the 2007 Series A Bonds. The City has covenanted and agreed in the Remarketing Agreement that if, as a result of a change in the Interest Mode (as defined in APPENDIX C hereto) applicable to the 2007 Series A Bonds, the 2007 Series A Bonds cease to be exempt under Rule 15c2-12, the City will execute a continuing disclosure agreement with respect to the 2007 Series A Bonds for the benefit of the holders and beneficial owners of such Bonds, in order to assist the Remarketing Agent in complying with Rule 15c2-12.

Book-Entry Only System

The 2007 Series A Bonds have been issued in book-entry form through the book-entry system of DTC. Any 2007 Series A Bonds issued in book-entry form through the book-entry system of DTC shall be subject to the discussion set forth below.

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

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE 2007 SERIES A BONDS, AS NOMINEE OF DTC, CERTAIN REFERENCES IN THIS REOFFERING MEMORANDUM TO THE 2007 SERIES A BONDHOLDERS OR REGISTERED OWNERS OF THE 2007 SERIES A BONDS SHALL MEAN CEDE & CO. AND WILL NOT MEAN THE BENEFICIAL OWNERS OF THE 2007 SERIES A BONDS. THE DESCRIPTION WHICH FOLLOWS OF THE PROCEDURES AND RECORD KEEPING WITH RESPECT TO BENEFICIAL OWNERSHIP INTERESTS IN THE 2007 SERIES A BONDS, PAYMENT OF INTEREST AND PRINCIPAL ON THE 2007 SERIES A BONDS TO DIRECT PARTICIPANTS (AS HEREINAFTER DEFINED) OR BENEFICIAL OWNERS OF THE 2007 SERIES A BONDS, CONFIRMATION AND TRANSFER OF BENEFICIAL OWNERSHIP INTERESTS IN THE 2007 SERIES A BONDS, AND OTHER RELATED TRANSACTIONS BY AND BETWEEN DTC, THE DIRECT PARTICIPANTS AND BENEFICIAL OWNERS OF THE 2007 SERIES A BONDS IS BASED SOLELY ON INFORMATION FURNISHED BY DTC. ACCORDINGLY, THE CITY NEITHER MAKES NOR CAN MAKE ANY REPRESENTATIONS CONCERNING THESE MATTERS.

DTC will act as securities depository for the 2007 Series A Bonds. The 2007 Series A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2007 Series A Bonds certificate will be issued for the 2007 Series A Bonds in the aggregate principal amount thereof, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship

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

Purchases of 2007 Series A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2007 Series A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2007 Series A Bondholder ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2007 Series A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2007 Series A Bonds, except in the event that use of the book-entry system for the 2007 Series A Bonds is discontinued.

To facilitate subsequent transfers, all 2007 Series A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2007 Series A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2007 Series A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2007 Series A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2007 Series A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2007 Series A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of 2007 Series A Bonds may wish to ascertain that the nominee holding the 2007 Series A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2007 Series A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2007 Series A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal and interest on the 2007 Series A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the

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

DTC may discontinue providing its services as depository with respect to the 2007 Series A Bonds at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor depository is not obtained, the 2007 Series A Bonds are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2007 Series A Bonds certificates will be printed and delivered to DTC.

Other

Certain capitalized terms used in this Reoffering Memorandum have the same meanings assigned to such terms in the Resolution, except as otherwise indicated herein. See "Copies of the Resolution and the Eighteenth Supplemental Bond Resolution" attached hereto as APPENDIX C. In addition, certain definitions applicable to the 2007 Series A Bonds are set forth in "Copies of the Resolution and the Eighteenth Supplemental Bond Resolution" in APPENDIX C hereto.

There follows in this Reoffering Memorandum brief descriptions of the security for the Bonds, the 2007 Series A Bonds, the Liquidity Facility, the Bank, the System, the City, the Resolution and certain financial statements. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City as described under "INTRODUCTORY STATEMENT – General" herein.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

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

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

- available sources and costs of fuels;

- effects of inflation;

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

- investment performance of the System's invested funds;

- advances in technology;

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

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

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

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

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

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

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

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

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

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

- other factors discussed elsewhere herein, such as potential legislation for the creation of a utility authority, including the Appendices attached hereto.

The City expressly disclaims any obligation to update any forward-looking statements. Prospective purchasers of the 2007 Series A Bonds should make a decision to purchase the 2007 Series A Bonds only after reviewing this entire Reoffering Memorandum (including the Appendices attached hereto) and making an independent evaluation of the information contained herein, including the possible effects of the factors described above.

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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[1]

	As of April 1, 2018[1]		
Description	**Interest Rates**	**(Unaudited) Due Dates (October 1)**	**Principal Outstanding[1]**
Utilities System Revenue Bonds			
2005 Series A	4.75%	2029 – 2036	$405,000
2005 Series B (federally taxable)	5.31%[2][3]	2017 – 2021	13,990,000
2005 Series C	Variable[2][4]	2026	26,225,000
2006 Series A	Variable[2][5]	2026	18,410,000
2007 Series A	Variable[2][6]	2036	136,545,000
2008 Series A (federally taxable)	5.02– 5.27%[2][3]	2017 – 2020	16,475,000
2008 Series B	Variable[2][7]	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[8]	2042	100,470,000
2014 Series A	2.50% – 5.00%	2021 – 2044	37,835,000
2014 Series B	3.125 – 5.00%	2017 – 2036	24,900,000
2017 Series A	4.00-5.00%	2018-2040	415,920,000
2017 Series B	Variable[2][9]		150,000,000
2017 Series C	Variable[2]		115,000,000
Total Utilities System Revenue Bonds			$1,534,340,000
Utilities System Commercial Paper Notes			
Series C	Variable[2][10]	[11]	$45,000,000[12]
Series D	Variable[2]	[13]	8,000,000
Total Subordinated Bonds[14]			$53,000,000

[Footnotes continued on following pages]

(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 30th, the principal amounts in the audit will be different than the principal amounts in the table if that series of bonds had principal amortization on October 1, 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 Seris 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 CP Notes. The counterparty to the Series C CP Notes Swap Transaction currently has a counterparty risk rating of "A" from Fitch Ratings, Inc. ("Fitch"), "Baa1" from Moody's and "BBB+" from S&P. The term of the Series C CP Notes Swap Transaction is identical to the expected final maturity date of the Series C CP Notes, and the notional amount of the Series C CP Notes Swap Transaction will amortize at the same times and in the same amounts as the Series C CP Notes related to the swap are expected to be amortized. The Series C CP Notes Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the Series C CP Notes Swap Transaction, the City will pay to the counterparty a fixed rate of 4.10% per annum

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

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

(12) See "INTRODUCTORY STATEMENT – General" above for more information about the issuance of additional Series C CP Notes.

(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 Series 2018 Notes or the SunTrust Loan. See "INTRODUCTORY STATEMENT – General" above for more information.

APPENDIX D attached hereto shows total debt service requirements on all Bonds Outstanding as of October 1, 2017.

SECURITY FOR THE 2007 SERIES A BONDS

Pledge Under the Resolution

All Bonds issued under the Resolution, including the 2007 Series A Bonds, are direct and special obligations of the City payable solely from and secured as to the payment of the principal and premium, if any, and interest thereon, in accordance with their terms and the provisions of the Resolution by (i) proceeds of the sale of the Bonds, (ii) Revenues and (iii) all Funds established by the Resolution (other than the Debt Service Reserve Account in the Debt Service Fund which secures only certain designated Series of Bonds and any fund which may be established pursuant to the Resolution for decommissioning and certain other specified purposes), including the investments and income, if any, thereof (collectively, the "Trust Estate"), and the Trust Estate is pledged and assigned to the Trustee for the benefit of the holders of the Bonds subject to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

THE 2007 SERIES A BONDS DO NOT CONSTITUTE A GENERAL INDEBTEDNESS OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION OR LIMITATION OF INDEBTEDNESS. NO HOLDER OF THE 2007 SERIES A BONDS WILL HAVE THE RIGHT, DIRECTLY OR INDIRECTLY, TO REQUIRE OR COMPEL THE EXERCISE OF THE AD VALOREM TAXING POWER OF THE CITY FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE 2007 SERIES A BONDS OR THE MAKING OF ANY PAYMENTS UNDER THE RESOLUTION. THE 2007 SERIES A BONDS AND THE OBLIGATIONS EVIDENCED THEREBY DO NOT CONSTITUTE A LIEN ON ANY PROPERTY OF OR IN THE CITY, OTHER THAN THE TRUST ESTATE. THE CITY MAY ISSUE, PURSUANT TO THE RESOLUTION, ADDITIONAL BONDS ON A PARITY BASIS WITH THE 2007 SERIES A BONDS. See

"THE SYSTEM -- Additional Financing Requirements" herein for a discussion of the City's present intentions with respect to the issuance of additional Bonds and Subordinated Indebtedness.

Rates, Fees and Charges

The City shall at all times 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 shall be equal to at least 1.25 times the Aggregate Debt Service 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 Resolution; provided, however, that any Principal Installment which is a Refundable Principal Installment may be excluded from Aggregate Debt Service for purposes of the foregoing but only to the extent that the City intends to pay such Principal Installment from sources other than Revenues. 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 Resolution.

No free service or service otherwise than in accordance with the established rates, fees and charges shall be furnished by the System, which rates, fees and charges shall not permit the granting of preferential rates, fees or charges among the users of the same class of customers. If and to whatever extent the City receives the services and facilities of the System, it shall pay for such services and facilities according to the City's established rate schedule, and the amounts so paid shall be included in the amount of Revenues.

In estimating Aggregate Debt Service on any Variable Rate Bonds, Parity Commercial Paper Notes or Parity Medium-Term Notes for purposes of first paragraph above, the City shall be entitled to assume that such Variable Rate Bonds, Parity Commercial Paper Notes or Parity Medium-Term Notes will bear such interest rate or rates as the City shall determine; provided, however, that the interest rate or rates assumed shall not be less than the interest rate borne by such Variable Rate Bonds, Parity Commercial Paper Notes or Parity Medium-Term Notes, as the case may be, at the time of determination of Aggregate Debt Service. See "APPENDIX C-1 – Composite of the Resolution" attached hereto.

Additional Bonds; Conditions to Issuance

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

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

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

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

Refunding Bonds. 1. One or more series of Refunding Bonds may be issued at any time to refund any Outstanding Bonds. Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make the deposits in the Funds and Accounts under the Resolution required by the provisions of the Supplemental Resolution authorizing such Bonds.

2. Refunding Bonds of each Series shall be authenticated and delivered by the Trustee only upon receipt by the Trustee (with copies of all documents to the Co-Trustee, if any), in addition to the documents required by the Resolution, of:

(a) Instructions to the Trustee, satisfactory to it, to give due notice of redemption, if applicable, of all the Bonds to be refunded on a redemption date or dates specified in such instructions;

(b) If the Bonds to be refunded are not by their terms subject to redemption or paid at maturity within the next succeeding 60 days, instructions to the Trustee, satisfactory to it, to give due notice of defeasance in the manner provided for in the Resolution or the Supplemental Resolution authorizing the Bonds of the Series being refunded; and

(c) Either (i) moneys (including moneys withdrawn and deposited pursuant to the Resolution) in an amount sufficient to effect payment at the applicable Redemption Price of the Bonds to be redeemed and at the principal amount of the Bonds to be paid at maturity together with accrued interest on such Bonds to the redemption date or maturity date, as applicable, which moneys shall be held by the Trustee or any one or more of the Paying Agents in a separate account irrevocably in trust for and assigned to the respective Holders of the Bonds to be refunded, or (ii) Defeasance Securities in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications and any moneys, as shall be necessary to comply (x) with the provisions of the Resolution, which Defeasance Securities and moneys shall be held in trust and used only as provided in the Resolution or (y) the provisions relating to defeasance of the Bonds being refunded set forth in the Supplemental Resolution authorizing the Bonds of the Series being refunded, as applicable, which Defeasance Securities and moneys shall be held in trust and used only as provided in said provisions.

The proceeds, including accrued interest, of the Refunding Bonds of each Series shall be applied simultaneously with the delivery of such Bonds for the purposes of making deposits in such Funds and Accounts under the Resolution as shall be provided by the Supplemental Resolution authorizing such

Series of Refunding Bonds and shall be applied to the refunding purposes thereof in the manner provided in said Supplemental Resolution.

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

There are certain Springing Amendments to the covenants related to the issuance of additional Bonds, including with respect to the issuance of Refunding Bonds, described above which will go into effect after the requisite consents have been obtained. These amendments, with respect to additional Bonds, modify the historical and projected debt service coverage tests. See "SPRINGING AMENDMENTS", "APPENDIX C-1 – Composite of the Resolution" and "APPENDIX C-2 Springing Amendments to the Resolution" attached hereto for a description of the applicable Springing Amendments to the Resolution.

Flow of Funds Under the Resolution

The City has covenanted to deposit all Revenues of the System to the credit of the Revenue Fund. Each month, the City is to pay from the Revenue Fund amounts necessary to meet Operation and Maintenance Expenses for such month. After such payment, the City is to pay from the Revenue Fund, in the following order of priority, amounts, if any, budgeted or otherwise necessary for the Rate Stabilization Fund, amounts required for the Debt Service Account in the Debt Service Fund and amounts, if any, required for credit to any separate subaccount established in the Debt Service Reserve Account in the Debt Service Fund for a particular Series of Bonds, amounts, if any, required for the Subordinated Indebtedness Fund, and amounts to be deposited in the Utilities Plant Improvement Fund. The balance of any moneys remaining in the Revenue Fund after the required payments have been made can be used by the City for any other lawful purpose, provided that all current payments have been made and the City has otherwise fully complied with the Resolution. All amounts held in any Funds under the Resolution may be invested in Investment Securities; such investments will be valued at the amortized cost thereof. The 2007 Series A Bonds are not secured by the Debt Service Reserve Account, or any subaccount therein.

For a more extensive discussion of the terms and provisions of the Resolution, the levels at which the funds and accounts established thereby are to be maintained and the purposes to which moneys in such funds and accounts may be applied, see *"APPENDIX C-1 – Composite of the Resolution*" attached hereto. ***Additionally, there are certain amendments which will go into effect relating to the flow of funds after the requisite consents have been obtained. See "SPRINGING AMENDMENTS", "APPENDIX C-1 – Composite of the Resolution" and "APPENDIX C-2 - Springing Amendments to the Resolution" attached hereto for a description of the applicable Springing Amendments to the Resolution.***

SPRINGING AMENDMENTS

The City desires to implement Springing Amendments which, upon becoming effective, will modify certain provisions of the Resolution in the future. Specifically, the Second Amended and Restated Utilities System Bond Resolution adopted by the City on September 21, 2017 contains amendments that will only become effective upon receipt of the written consent of holders of at least a majority of the principal amount of Outstanding Bonds and of the following other parties: certain Credit Enhancers, liquidity providers or swap counterparties. Notwithstanding any other provision of the Resolution, to the extent permitted by law, at the time of issuance or remarketing of Bonds under the Resolution, a

broker, dealer or municipal securities dealer, serving as underwriter or remarketing agent for such Bonds, or as agent for or in lieu of Holders of a particular Series of Bonds, may provide consent to amendments to the Resolution pursuant to Section 1003 of the Resolution. The principal amount of Outstanding Bonds (including the reissued 2007 Series A Bonds) constitutes a majority of principal amount of the Outstanding Bonds. The Springing Amendments will 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 Resolution within such forty (40) day period. The Registered Owners and Beneficial Owners of 2007 Series A Bonds will not be notified when such amendments go into effect. For a complete description of such Springing Amendments see "APPENDIX C-2 – Springing Amendments to the Resolution" attached hereto.

By purchasing the 2007 Series A Bonds, the Registered Owners and Beneficial Owners thereof shall be deemed to have consented in writing to such Springing Amendments as described in "APPENDIX C-2 –Springing Amendments to the Resolution" attached hereto.

SEE THE SPRINGING AMENDMENTS IN "APPENDIX C-2 – SPRINGING AMENDMENTS TO THE RESOLUTION" ATTACHED HERETO FOR THE COMPLETE TEXT OF THE ABOVE-REFERENCED AMENDMENTS.

THE 2007 SERIES A BONDS

General

The 2007 Series A Bonds were issued on May 1, 2007 in the aggregate principal amount of $139,505,000, all of which currently remains Outstanding. The 2007 Series A Bonds mature on October 1, 2038. The 2007 Series A Bonds are currently subject to the Weekly Mode and bear interest at the Weekly Rates determined as described under the caption "Interest Rates and Interest Modes; Determination of Interest Rates" below. While the 2007 Series A Bonds are in the Weekly Mode, interest is payable on the first Business Day (as defined in APPENDIX C hereto) of each calendar month.

As described under the caption "Change in Interest Modes" below, at the option of the City, and upon the satisfaction of certain conditions, the 2007 Series A Bonds may be changed from time to time to another Interest Mode. As more fully described under the caption "Interest Rates and Interest Modes; Determination of Interest Rates" below, (a) while the 2007 Series A Bonds are in the Daily Mode, such Bonds will bear interest at Daily Rates, (b) while the 2007 Series A Bonds are in the Weekly Mode, such Bonds will bear interest at Weekly Rates, (c) while the 2007 Series A Bonds are in the Flexible Mode, such Bonds will bear interest at Flexible Rates, (d) while the 2007 Series A Bonds are in the Term Mode, such Bonds will bear interest at Term Rates and (e) while the 2007 Series A Bonds are in the Fixed Mode, such Bonds will bear interest at the Fixed Rate. The Eighteenth Supplemental Resolution also provides that the 2007 Series A Bonds may be changed to a "Dutch auction" Interest Mode (referred to in the Eighteenth Supplemental Resolution as the "Auction Mode"), but requires that the City adopt an amendment to the Eighteenth Supplemental Resolution prior to the date on which such change is to be effective, to add to the Eighteenth Supplemental Resolution procedures relating to, among other things, (a) the determination of the dates on which auctions will be held and the length of the periods between auctions, (b) the conduct of auctions and (c) the determination of the interest rates to be borne by the 2007 Series A Bonds while subject to the Auction Mode. As a result, the provisions of the Auction Mode are not described in this Reoffering Memorandum. Instead, it is anticipated that, should the 2007 Series A Bonds

be changed to the Auction Mode, a remarketing memorandum or remarketing circular will be distributed describing the 2007 Series A Bonds during the Auction Mode.

The 2007 Series A Bonds are issuable only in fully registered form in the Authorized Denominations. "Authorized Denominations" means (i) for 2007 Series A Bonds bearing interest at a Daily Rate, a Weekly Rate or a Flexible Rate, $100,000 or any integral multiple of $5,000 in excess thereof and (ii) for 2007 Series A Bonds bearing interest at a Term Rate or a Fixed Rate, $5,000 or any integral multiple thereof. The 2007 Series A Bonds were issued in book-entry only form and are registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). See "INTRODUCTORY STATEMENT - Book-Entry Only System" herein.

As more fully described under the captions "Optional Tender for Purchase" and "Mandatory Tender for Purchase" below, the 2007 Series A Bonds (or, for so long as the 2007 Series A Bonds are subject to the book-entry only system of registration and transfer described in "Book-Entry Only System" herein, beneficial ownership interests therein) are subject to optional tender for purchase and, under certain circumstances, mandatory tender for purchase. The Purchase Price (as defined in APPENDIX C hereto) for 2007 Series A Bonds (or portions thereof or beneficial ownership interests therein) tendered or deemed tendered for purchase is payable solely from the sources described under the caption "Remarketing and Purchase Price" below, and is not payable from any funds of the City.

Except as described below, the principal or redemption price of the 2007 Series A Bonds is payable at the principal office of the Paying Agent. Except as described below, interest on the 2007 Series A Bonds is payable on each Interest Payment Date (as defined in APPENDIX C hereto) to the Holders thereof at the Record Date (as defined in APPENDIX C hereto) therefor, by check or draft of the Paying Agent mailed to each registered Holder at such person's address as it appears on the books of registry kept at the principal office of the Bond Registrar pursuant to the Resolution or, at the option of any Holder of at least $1,000,000 in principal amount of 2007 Series A Bonds, by wire transfer on such Interest Payment Date to such Holder thereof upon written notice from such Holder to the Paying Agent containing the wire transfer address (which shall be in the continental United States) to which such Holder wishes to have such wire directed and any other necessary instructions, if such written notice is received by the Paying Agent not less than five days prior to the related Record Date, it being understood that such notice may refer to multiple interest payments. So long as the 2007 Series A Bonds are subject to the book-entry only system of registration and transfer described in "INTRODUCTORY STATEMENT - Book-Entry Only System" herein, all payments with respect to the principal or redemption price of, and interest on, the 2007 Series A Bonds will be made to DTC.

Goldman Sachs & Co. LLC is the current Remarketing Agent for the 2007 Series A Bonds. Subject to the terms of the Remarketing Agreement, the Remarketing Agent will determine the interest rates on the 2007 Series A Bonds and will remarket 2007 Series A Bonds tendered or required to be tendered for purchase on a best efforts basis. The Remarketing Agent may resign upon 30 days' notice or be removed at any time by the City upon 30 days' notice.

U.S. Bank National Association, New York, New York has been appointed as the Tender Agent for the 2007 Series A Bonds by the City. The Tender Agent may be removed or replaced by the City.

For definitions of certain terms applicable to the 2007 Series A Bonds that are not otherwise defined herein, see "Copies of the Resolution and the Eighteenth Supplemental Bond Resolution" in APPENDIX C hereto.

Interest on the 2007 Series A Bonds

Interest on the 2007 Series A Bonds is payable on each Interest Payment Date therefor. Holders of the 2007 Series A Bonds other than the Bank will be paid interest for the applicable Interest Period (as defined in APPENDIX C hereto) only in the amount that would have accrued at the applicable 2007 Series A Bond Rate (as defined in APPENDIX C hereto) or Rates in effect during the applicable Interest Accrual Period (as defined in APPENDIX C hereto), regardless of whether any of such 2007 Series A Bonds was a 2007 Series A Bank Bond (as defined in APPENDIX C hereto) during any portion of such Interest Accrual Period.

The Interest Payment Dates with respect to each 2007 Series A Bond (other than any 2007 Series A Bank Bond) are as follows: (a) each date on which the 2007 Series A Bonds are subject to mandatory tender for purchase (see "Mandatory Tender for Purchase" below); (b) for 2007 Series A Bonds in the Daily Mode or the Weekly Mode, the first Business Day of each calendar month; (c) for 2007 Series A Bonds in the Flexible Mode, the first Business Day following the end of each Interest Period with respect thereto; (d) for 2007 Series A Bonds in the Term Mode or the Fixed Mode, semi-annually on each April 1 and October 1 commencing on the first April 1 or October 1 occurring after the conversion to such Interest Mode; provided, however, that if such first date occurs less than three months after such conversion, the first Interest Payment Date will be on the second such date following such conversion; and (e) the maturity or redemption date thereof.

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

Interest is payable to the Holders of the 2007 Series A Bonds at the relevant Record Date. The "Record Date" (a) with respect to an Interest Payment Date for 2007 Series A Bonds in the Term Mode or the Fixed Mode, is the close of business on the fifteenth day (whether or not a Business Day) of the next preceding calendar month (except that in the case of any Interest Payment Date occurring on any date on which the 2007 Series A Bonds are subject to mandatory tender for purchase, the Record Date therefor is the close of business on the Business Day immediately preceding such Interest Payment Date) and (b) with respect to an Interest Payment Date for 2007 Series A Bonds in the Daily Mode, the Weekly Mode or the Flexible Mode, is the close of business on the Business Day immediately preceding such Interest Payment Date.

The maximum rate of interest (the "Maximum Rate") permitted to be borne by 2007 Series A Bonds (other than 2007 Series A Bank Bonds) is 12% per annum, or such higher rate as shall be approved by the City if (a) an opinion of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions shall have been delivered to the Notice Parties (as defined in APPENDIX C hereto) to the effect that any such change in the Maximum Rate (i) is authorized or permitted by the Resolution and the Act (as defined in the Resolution) and (ii) will not cause the interest on the 2007 Series A Bonds to become includable in gross income for federal income tax purposes and (b) if the 2007 Series A Bonds are in the Daily Mode or the Weekly Mode, the Liquidity Facility is modified (if necessary) so that its stated amount or the commitment of the Bank thereunder, as the case may be, is increased to give effect to the increased Maximum Rate.

Interest on the 2007 Series A Bonds in the Daily, Weekly or Flexible Mode will be computed on the basis of a 365- or 366-day year, as applicable, for actual days elapsed and interest on the 2007 Series A

Bonds in the Term or Fixed Mode will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Interest Rates and Interest Modes; Determination of Interest Rates

The 2007 Series A Bonds currently are in the Weekly Mode and will bear interest at Weekly Rates until such time (if any) as the 2007 Series A Bonds are changed to the Auction Mode, the Daily Mode, the Flexible Mode, the Term Mode or the Fixed Mode. The interest rate to be in effect with respect to a particular 2007 Series A Bond (or beneficial ownership interest therein) for a particular period of time as described below (an "Interest Period") will be determined by the Remarketing Agent as the minimum interest rate necessary in its judgment to be borne by such 2007 Series A Bond (or beneficial ownership interest therein) for the relevant Interest Period to enable the Remarketing Agent to remarket such 2007 Series A Bond (or beneficial ownership interest therein) on the Rate Adjustment Date (as defined in APPENDIX C hereto) therefor at a price (without regard to accrued interest) equal to 100% of the principal amount thereof (each such rate being referred to as a "Market Rate"), but not in excess of the Maximum Rate. Each date on which an interest rate is determined for any 2007 Series A Bond (or beneficial ownership interest therein) is referred to as a "Rate Determination Date."

If for any reason the Remarketing Agent fails to determine the Market Rate for any 2007 Series A Bond (or beneficial ownership interest therein) on the Rate Determination Date therefor, or any Market Rate determined by the Remarketing Agent is determined by a court of competent jurisdiction to be invalid or unenforceable, then, commencing on such Rate Determination Date or the date with respect to which such court's determination shall be effective, as the case may be, such 2007 Series A Bond (or beneficial ownership interest therein) will bear interest at a rate equal to 100% of the SIFMA Index most recently announced on or prior to each Rate Determination Date, but not in excess of the Maximum Rate. The "SIFMA Index" is an index based upon the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meet specific criteria established by the Securities Industry and Financial Markets Association and effective for a particular Rate Determination Date. If the SIFMA Index ceases to be published, it will be replaced by the most comparable published index designated by the Remarketing Agent, or in the absence of such designation, any other dealer bank or broker-dealer competent in such matters and chosen by the City.

The various interest rates for the 2007 Series A Bonds will be determined as follows, and will be effective for the periods described below:

Weekly Rate. While in the Weekly Mode, the 2007 Series A Bonds will bear interest at Weekly Rates determined by the Remarketing Agent as the Market Rate for each Interest Period during such Mode. Each Interest Period during the Weekly Mode will commence on a Wednesday and extend through Tuesday of the following week. The Weekly Rate for each such Interest Period will be determined by the Remarketing Agent not later than 5:00 p.m., New York City time, on Tuesday of each week, or if such day is not a Business Day, on the next preceding Business Day (or such other day as may be specified by the Remarketing Agent after notice to the Tender Agent and the Holders of the 2007 Series A Bonds).

Daily Rate. While in the Daily Mode, the 2007 Series A Bonds will bear interest at Daily Rates determined by the Remarketing Agent as the Market Rate therefor not later than 12:30 p.m., New York City time, on each Business Day. Each Daily Rate will remain in effect for the Interest Period beginning

on the Business Day of its determination and ending on the day preceding the next succeeding Business Day.

Flexible Rate. While in the Flexible Mode, the 2007 Series A Bonds (or beneficial ownership interests therein) will bear interest at Flexible Rates and for Interest Periods determined by the Remarketing Agent. The duration of each Interest Period for each 2007 Series A Bond (or beneficial ownership interest therein) in the Flexible Mode will be the period determined by the Remarketing Agent to be the Interest Period which, in its judgment, will produce the greatest likelihood of the lowest overall debt service costs on the 2007 Series A Bonds prior to the maturity thereof, given prevailing market conditions, and will be a period of not less than one (1) nor more than 270 days in length and will end on a day preceding a Business Day; provided, however, that no Interest Period during the Flexible Mode may extend beyond the fifth Business Day preceding the Liquidity Facility Expiration Date (as defined in APPENDIX C hereto) of the Liquidity Facility then in effect. While in the Flexible Mode, different 2007 Series A Bonds (or beneficial ownership interests therein) may have different Interest Periods. The Remarketing Agent will determine the Flexible Rates and Interest Periods for the 2007 Series A Bonds (or beneficial ownership interests therein) in the Flexible Mode not later than 12:30 p.m., New York City time, on the first Business Day in each Interest Period, and each Flexible Rate will be the Market Rate determined by the Remarketing Agent for the relevant Interest Period.

Term Rate. The City may designate a Term Mode for the 2007 Series A Bonds with an Interest Period of any duration specified by the City that is longer than a year and ends on the last day of any March or September; provided, however, that no Interest Period during a Term Mode may extend beyond the fifth Business Day preceding the Liquidity Facility Expiration Date of the Liquidity Facility then in effect. During each such Interest Period, the 2007 Series A Bonds will bear interest at the Term Rate for such Interest Period, which will be determined by the Remarketing Agent as the Market Rate therefor on any date designated by the Remarketing Agent which is not more than 35 days before, nor later than the last Business Day preceding, such Interest Period.

Fixed Rate. The City may direct that the interest rate on the 2007 Series A Bonds be fixed to the maturity date thereof. The Fixed Rate to be borne by the 2007 Series A Bonds to their maturity will be determined by the Remarketing Agent as the Market Rate therefor on any date designated by the Remarketing Agent which is not more than 35 days before, nor later than the last Business Day preceding, the effective date of such Fixed Rate.

The determination by the Remarketing Agent of each interest rate for the 2007 Series A Bonds shall be conclusive and binding on the City, the Tender Agent, the Remarketing Agent, the Bank and the owners of the 2007 Series A Bonds. The interest rates in effect for the 2007 Series A Bonds from time to time will be available to each owner of the 2007 Series A Bonds who requests such information, by telephone or in writing (including by facsimile or other electronic means), (a) if the 2007 Series A Bonds are in the Daily Mode, the Weekly Mode or the Flexible Mode, from the Remarketing Agent and (b) if the 2007 Series A Bonds are in the Term Mode or the Fixed Mode, from the Tender Agent.

Change in Interest Modes

If the 2007 Series A Bonds are in any Interest Mode other than the Fixed Mode, the City may cause the 2007 Series A Bonds to be changed to a different Interest Mode or to a Term Mode with an Interest Period of different duration. A change from the Daily or Weekly Mode to any other Interest Mode may be made on any Interest Payment Date. A change from the Flexible Mode to any other

Interest Mode may be made on the day that is the latest Interest Payment Date for all Interest Periods for all of the 2007 Series A Bonds (or beneficial ownership interests therein) then in effect or any Business Day thereafter. A change from the Term Mode to any other Interest Mode or to an Interest Period of different duration may be made on any day on which the 2007 Series A Bonds may be redeemed at the election of the City at a redemption price of 100% of the principal amount thereof, plus accrued interest, if any, thereon (see "Redemption Provisions – Optional Redemption" below). In any such case, the 2007 Series A Bonds will be subject to mandatory tender for purchase on the date on which the proposed change is to occur (see "Mandatory Tender for Purchase" below). Any date on which a change to a different Interest Mode or to an Interest Period of different duration in the Term Mode is proposed to occur is referred to as a "Mode Adjustment Date."

Any change in an Interest Mode or an Interest Period in the Term Mode is subject to (a) receipt by the Tender Agent and the Remarketing Agent on the first day of such Interest Mode or Interest Period, as the case may be, of an opinion of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that the change in Interest Mode or Interest Period, as the case may be, will not adversely affect the exclusion of interest on any 2007 Series A Bond from gross income for federal income tax purposes and is authorized by applicable law and (b) the Liquidity Facility then in effect being in an amount at least equal to the Liquidity Facility Requirement (as defined in APPENDIX C hereto) applicable to the Interest Mode to become effective. If either of the above conditions is not met, then the 2007 Series A Bonds will remain in the Interest Mode which they are then in or remain subject to the same Interest Period as then is applicable, as the case may be; provided, however, that if the proposed change was from the Term Mode to any other Interest Mode and the City causes to be delivered to the Tender Agent and the Remarketing Agent an opinion of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that such change in Interest Mode will not adversely affect the exclusion of interest on any 2007 Series A Bond from gross income for federal income tax purposes and is authorized by applicable law, then, so long as the Liquidity Facility then in effect (taking into account any amendments being made thereto in connection therewith) shall provide that the amount available to be drawn or advanced thereunder shall be at least equal to the principal amount of the Outstanding 2007 Series A Bonds (other than 2007 Series A Bank Bonds) plus 36 days' interest thereon computed at a rate per annum equal to the Maximum Rate and on the basis of a 365-day year, the 2007 Series A Bonds will be changed to the Weekly Mode. In any such event, the 2007 Series A Bond will remain subject to mandatory tender to the same extent as if the change in Interest Mode or Interest Period, as the case may be, took place.

When a change in Interest Mode is to be made, the Tender Agent is required to give notice of the proposed change to the Holders of the 2007 Series A Bonds (a) if the 2007 Series A Bonds are then in the Daily Mode or the Weekly Mode, not less than fifteen nor more than 60 days prior to the proposed Mode Adjustment Date and (b) if the 2007 Series A Bonds are in any other Interest Mode, not less than thirty nor more than 60 days prior to the proposed Mode Adjustment Date. Such notice will state, among other things, that the 2007 Series A Bonds will be subject to mandatory tender for purchase on the proposed Mode Adjustment Date.

Optional Tender for Purchase

2007 Series A Bonds in the Daily Mode or the Weekly Mode (or portions thereof or beneficial ownership interests therein in a principal amount equal to, and leaving untendered, an Authorized

Denomination) are subject to tender for purchase at the option of the Holder thereof (or, if the 2007 Series A Bonds are subject to the book-entry only system of registration and transfer described in "INTRODUCTORY STATEMENT - Book-Entry Only System" herein, at the option of the Beneficial Owner (as defined in "Book-Entry Only System" herein) thereof), from and to the extent of the funds described under the caption "Remarketing and Purchase Price" below, at the Purchase Price therefor, on the following dates (each such date being referred to herein as a "Purchase Date"):

Weekly Mode. 2007 Series A Bonds (or portions thereof or beneficial ownership interests therein) in the Weekly Mode may be tendered for purchase on any Business Day, upon irrevocable notice of tender given to the Tender Agent as described below in writing (including by facsimile or other electronic means) no later than 5:00 p.m., New York City time, on a Business Day at least seven calendar days prior to the Purchase Date.

Daily Mode. 2007 Series A Bonds (or portions thereof or beneficial ownership interests therein) in the Daily Mode may be tendered for purchase on any Business Day, upon irrevocable notice of tender given to the Tender Agent as described below by telephone, facsimile or other electronic means no later than 11:00 a.m., New York City time, on the Purchase Date.

Each notice of exercise of the election to have a 2007 Series A Bond (or portion thereof or beneficial ownership interest therein) purchased will be irrevocable and effective upon receipt, and must specify the principal amount of the 2007 Series A Bond (or portion thereof or beneficial ownership interest therein) to be purchased, the Purchase Date and the name of the Holder of the 2007 Series A Bond (or, if the 2007 Series A Bonds are subject to the book-entry only system of registration and transfer described in "Book-Entry Only System" herein, the name and number of the account to which such beneficial ownership interest is credited by DTC) and must be given by the Holder thereof or such Holder's attorney duly authorized in writing (or, if the 2007 Series A Bonds are subject to such book-entry only system of registration and transfer, by the Beneficial Owner thereof or such Beneficial Owner's attorney duly authorized in writing).

Holders (or, if applicable, Beneficial Owners) of 2007 Series A Bonds (or portions thereof or beneficial ownership interests therein) that have elected to require purchase as described above will be deemed, by such election, to have agreed irrevocably to sell the 2007 Series A Bonds (or portions thereof or beneficial ownership interests therein) to any purchaser determined in accordance with the provisions of the Eighteenth Supplemental Resolution on the date fixed for purchase at the Purchase Price therefor, and will be required to deliver (or cause to be delivered) such tendered 2007 Series A Bonds (or portions thereof) to the office of the Tender Agent by 12:00 p.m., New York City time, on the Purchase Date, in each such case, endorsed in blank (or accompanied by a bond power executed in blank). See "Remarketing and Purchase Price" below.

Mandatory Tender for Purchase

The 2007 Series A Bonds must be tendered for purchase, from and to the extent of the funds described under the caption "Remarketing and Purchase Price" below, at the Purchase Price therefor, on the following dates (each such date being referred to herein as a "Purchase Date"):

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

Substitution of Liquidity Facility: on any Substitution Date (as defined in APPENDIX C hereto) while the 2007 Series A Bonds are in the Daily Mode or the Weekly Mode; provided, however, that if the City shall have delivered to the Notice Parties, by not later than the Business Day prior to the date on which the Tender Agent is required to give notice of such mandatory tender pursuant to the Eighteenth Supplemental Resolution, written evidence from each Rating Agency (as defined in APPENDIX C hereto) then rating the 2007 Series A Bonds to the effect that such Rating Agency has reviewed the proposed Substitute Liquidity Facility and that the substitution of such Substitute Liquidity Facility for the Liquidity Facility then in effect will not result in a withdrawal, suspension or reduction in such Rating Agency's ratings on the 2007 Series A Bonds, then the 2007 Series A Bonds shall not be subject to mandatory tender for purchase on the Substitution Date,

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

Rate Adjustment Dates: on each Rate Adjustment Date while the 2007 Series A Bonds are in (a) the Flexible Mode or (b) the Term Mode,

City Option in Term Mode: at the option of the City while the 2007 Series A Bonds are in the Term Mode, on any day on which such 2007 Series A Bonds may then be redeemed at the election of the City at a redemption price of 100% of the principal amount thereof, plus accrued interest, if any, thereon (see "Redemption Provisions – Optional Redemption" below),

Amendment to the Eighteenth Supplemental Resolution or the Resolution: on (a) any Business Day while the 2007 Series A Bonds are in the Daily Mode or Weekly Mode, (b) any Rate Adjustment Date while the 2007 Series A Bonds are in the Flexible Mode, or (c) any Business Day on which the 2007 Series A Bonds may then be redeemed at the election of the City at a redemption price of 100% of the principal amount thereof, plus accrued interest, if any, thereon (see "Redemption Provisions – Optional Redemption" below) while such 2007 Series A Bonds are in the Term Mode, in any such case, that is at least fifteen days following delivery to the Notice Parties of a certificate of an authorized officer of the City to the effect that the City is causing the 2007 Series A Bonds to become subject to mandatory tender in order to enable any Supplemental Resolution amending the Eighteenth Supplemental Resolution or the Resolution to take effect; provided, however, that such certificate is accompanied by an opinion of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that such amendments are authorized or permitted by the Resolution and will not cause the interest on the 2007 Series A Bonds to become includable in gross income for federal income tax purposes, and

Liquidity Facility Default: on the fifteenth day (or if such day is not a Business Day, on the next preceding Business Day) after receipt by the Tender Agent of notice from the Bank to the effect that an "event of default" (or similar provision) on the part of the City has occurred and is continuing under the Liquidity Facility, and directing the Tender Agent to make a draw or request for funding, as the case may be, under the Liquidity Facility to effect a mandatory tender of all of the 2007 Series A Bonds.

Except in the case of (a) a Rate Adjustment Date for 2007 Series A Bonds in the Flexible Mode and (b) a mandatory tender described under "Liquidity Facility Default" above, the Tender Agent will give notice of mandatory tender for purchase to each Holder of the 2007 Series A Bonds by mail, first-class postage prepaid, (i) if the 2007 Series A Bonds are then in the Daily Mode or the Weekly Mode, not less

than fifteen nor more than 60 days prior to the Purchase Date and (ii) if the 2007 Series A Bonds are in any other Interest Mode, not less than 30 nor more than 60 days prior to the Purchase Date. In the case of a mandatory tender described under "Liquidity Facility Default" above, the Tender Agent will give notice of mandatory tender for purchase to each Holder of the 2007 Series A Bonds by mail, first-class postage prepaid, as promptly as practicable following receipt by it of the notice from the Bank referred to under "Liquidity Facility Default" above. While the 2007 Series A Bonds are subject to the book-entry only system of registration and transfer described in "Book-Entry Only System" herein, such notice will be given only to DTC.

Holders (or, if applicable, Beneficial Owners) of 2007 Series A Bonds (or beneficial ownership interests therein) will be deemed to have agreed irrevocably to sell 2007 Series A Bonds (or portions thereof or beneficial ownership interests therein) subject to mandatory tender for purchase to any purchaser determined in accordance with the provisions of the Eighteenth Supplemental Resolution on the date fixed for purchase at the Purchase Price therefor, and will be required to deliver (or cause to be delivered) such tendered 2007 Series A Bonds (or portions thereof) to the office of the Tender Agent by 12:00 p.m., New York City time, on the Purchase Date, endorsed in blank (or accompanied by a bond power executed in blank). See "Remarketing and Purchase Price" below.

Remarketing and Purchase Price

In the event that notice is received of any optional tender of 2007 Series A Bonds (or portions thereof or beneficial ownership interests therein) or if the 2007 Series A Bonds become subject to mandatory tender for purchase, except in the case of a mandatory tender (a) in connection with the expiration of the Liquidity Facility then in effect and (b) upon a default on the part of the City under the Liquidity Facility then in effect, the Remarketing Agent will use its best efforts, subject to certain conditions, to sell the tendered 2007 Series A Bonds (or portions thereof or beneficial ownership interests therein) at a price equal to the Purchase Price therefor, on the forthcoming optional or mandatory tender date.

The Purchase Price of 2007 Series A Bonds (or portions thereof or beneficial ownership interests therein) tendered for purchase is payable, first, from and to the extent of moneys derived from the remarketing of 2007 Series A Bonds (or portions thereof or beneficial ownership interests therein) by the Remarketing Agent and, if such remarketing proceeds are insufficient, from moneys drawn by the Tender Agent under the Liquidity Facility. The obligation of the Bank to purchase 2007 Series A Bonds under the Liquidity Facility is subject to certain conditions, and such obligation may be terminated without prior notice or payment thereunder under certain circumstances. See "LIQUIDITY FACILITY" herein.

The City is not required under the Eighteenth Supplemental Resolution to pay the Purchase Price of the tendered 2007 Series A Bonds (or portions thereof or beneficial ownership interests therein) which are not remarketed or purchased with funds drawn under the Liquidity Facility.

Upon tender for purchase of any 2007 Series A Bond (or portion thereof) on the Purchase Date therefor or of any Untendered 2007 Series A Bond (hereinafter defined) on or after the Purchase Date therefor at the office of the Tender Agent, endorsed in blank (or accompanied by a bond power executed in blank) to the extent of the portion to be purchased, the Tender Agent will pay to the Holder of such 2007 Series A Bond (or portion thereof) or such Untendered 2007 Series A Bond, as the case may be, the Purchase Price therefor from funds available for such purchase held in the applicable account in the 2007 Series A Bond Purchase Fund (as defined in APPENDIX C hereto), in each such case, by 5:00 p.m., New York City time, on the date of payment.

While the 2007 Series A Bonds are subject to the book-entry only system of registration and transfer described in "Book-Entry Only System" herein, to the extent permitted pursuant to the procedures of DTC, any beneficial ownership interest in such 2007 Series A Bonds will be deemed tendered to the Tender Agent endorsed in blank when DTC or any Direct Participant or Indirect Participant (as such terms are defined in "Book-Entry Only System" herein) which owns such beneficial ownership interest as nominee for the Beneficial Owner thereof has received sufficient instructions from the person to whose account at DTC such beneficial ownership interest is credited to transfer such beneficial ownership interest to the account of the Tender Agent and such transfer is effected, and payment of the Purchase Price of such beneficial ownership interest will be deemed to be made when the Tender Agent gives sufficient instructions to (while maintaining sufficient funds at or delivering such funds to) DTC or such Participant to credit such Purchase Price to the account of such person or such Participant.

Untendered 2007 Series A Bonds

With respect to any 2007 Series A Bond (or portion thereof) (a) for which notice was given in connection with an optional tender but which is not tendered for purchase by 12:00 p.m., New York City time, on the applicable Purchase Date or (b) which is required to be tendered in connection with a mandatory tender and which is not tendered for purchase by 12:00 p.m., New York City time, on the applicable Purchase Date (such 2007 Series A Bonds (or portions thereof) being referred to herein as "Untendered 2007 Series A Bonds"), such 2007 Series A Bond (or portion thereof) will, upon deposit in the applicable account in the 2007 Series A Bond Purchase Fund of an amount sufficient to pay the Purchase Price of such 2007 Series A Bond (or portion thereof) on such Purchase Date, be deemed to have been tendered and sold on such Purchase Date and thereafter, the person who has failed to deliver such 2007 Series A Bond (or portion thereof) will not be entitled to any payment (including any interest accrued subsequent to such Purchase Date) in respect thereof other than the Purchase Price for such 2007 Series A Bond (or portion thereof) and, unless such Purchase Price includes accrued interest to such Purchase Date, such accrued interest, and such Untendered 2007 Series A Bond will no longer be entitled to the benefit of the Resolution, except for the payment of the Purchase Price and accrued interest, if any.

2007 Series A Bank Bonds

Any 2007 Series A Bond (or portion thereof or beneficial ownership interest therein) which has been tendered or deemed tendered for purchase on a Purchase Date and which has been purchased with the proceeds of a drawing under the Liquidity Facility will be and constitute a 2007 Series A Bank Bond under the Eighteenth Supplemental Resolution. Each 2007 Series A Bank Bond will bear interest from and including the date on which such 2007 Series A Bond was so purchased (the "Bank Purchase Date") at the applicable Bank Rate (as defined in APPENDIX C hereto) or Rates in effect from time to time during such period.

The Eighteenth Supplemental Resolution provides that any 2007 Series A Bond that is a 2007 Series A Bank Bond will be subject to mandatory redemption through sinking fund installments as follows: Each 2007 Series A Bank Bond outstanding will be redeemed during the period commencing with a date (the "Term-Out Date") which is 180 days after the Bank Purchase Date (or, if the purchase was made as a result of the Bank's election to cause the 2007 Series A Bonds to become subject to mandatory tender for purchase following the occurrence of an "event of default" (or similar provision) under the Liquidity Facility then in effect (see "Mandatory Tender for Purchase —Liquidity Facility Default" above), the earlier of (i) 180 days after the Bank Purchase Date or (ii) the Liquidity Facility Expiration Date) and

extending to the earlier of (a) the date that is the fifth anniversary of the relevant Bank Purchase Date or (b) the maturity date of the 2007 Series A Bonds, in equal semi-annual installments, payable on the Term-Out Date and at the end of each six-month period thereafter. In order to provide for such retirement, the Eighteenth Supplemental Resolution establishes sinking fund installments with respect to each such 2007 Series A Bank Bond, which sinking fund installments will be due in semi-annual installments, on the Term-Out Date and at the end of each six-month period thereafter with respect to each such 2007 Series A Bank Bond. For purposes of the two preceding sentences, each semi-annual payment date or due date, as the case may be, will be the date that numerically corresponds with the Term-Out Date or, if there is no such numerically corresponding date in the applicable month, on the last day of such month (or, if such day is not a Business Day, the next succeeding Business Day). The redemption price will be the principal amount of the 2007 Series A Bank Bonds to be redeemed plus accrued interest thereon to the date of redemption. In the event that the principal amount of 2007 Series A Bank Bonds to be redeemed on any such redemption date is not equal to an Authorized Denomination, the principal amount of 2007 Series A Bank Bonds to be redeemed will be rounded to the next higher Authorized Denomination. Notwithstanding anything to the contrary contained in the Resolution, no credits shall be applied against any sinking fund installment due as described in this paragraph.

The Eighteenth Supplemental Resolution also provides that each 2007 Series A Bank Bond will constitute an "Option Bond" within the meaning of the Resolution and, as such, may be tendered or deemed tendered to the City for payment upon the occurrence of certain "events of default" on the part of the City under the Liquidity Facility. See "LIQUIDITY FACILITY – Liquidity Events of Default; Remedies " herein. Upon any such tender or deemed tender for purchase, the 2007 Series A Bank Bonds so tendered or deemed tendered will be due and payable immediately.

Disclosure Concerning Sales of Variable Rate Demand Obligations by Remarketing Agent

No representation is made by the City as to the accuracy, completeness or adequacy of such information to the extent this section reflects the internal practices and procedures of the Remarketing Agent.

The Remarketing Agent is Paid by the City. The Remarketing Agent's responsibilities include determining the interest rates borne by the 2007 Series A Bonds (or beneficial ownership interests therein) from time to time and remarketing 2007 Series A Bonds (or beneficial ownership interests therein) that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Eighteenth Supplemental Resolution and the Remarketing Agreement), all as further described in this Reoffering Memorandum. The Remarketing Agent is appointed by the City and is paid by the City for its services. As a result, the interests of the Remarketing Agent may differ from those of existing owners and potential purchasers of 2007 Series A Bonds.

The Remarketing Agent Routinely Purchases Variable Rate Demand Obligations for its Own Account. The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account in order to achieve a successful remarketing of such obligations (i.e., because there otherwise are not enough buyers to purchase such obligations) or for other reasons. The Remarketing Agent is permitted, but not obligated, in its sole discretion, to purchase tendered 2007 Series A Bonds for its own account. However, the Remarketing Agent is not obligated to purchase 2007 Series A Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the 2007 Series A Bonds by routinely purchasing and selling 2007 Series A Bonds other than in connection with an optional or

mandatory tender and remarketing. Such purchases and sales may be at prices at or below par. However, the Remarketing Agent is not required to make a market in the 2007 Series A Bonds. The Remarketing Agent may also sell any 2007 Series A Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the 2007 Series A Bonds. The purchase of 2007 Series A Bonds by the Remarketing Agent may create the appearance that there is greater third-party demand for the 2007 Series A Bonds in the market than is actually the case. The practices described above also may result in fewer 2007 Series A Bonds being tendered in a remarketing.

2007 Series A Bonds May be Offered at Different Prices on Any Date Including a Rate Determination Date. Pursuant to the Eighteenth Supplemental Resolution and the Remarketing Agreement, on each Rate Determination Date, the Remarketing Agent is required to determine the 2007 Series A Bond Rate, which shall be the rate of interest that, in the Remarketing Agent's judgment, is the minimum interest rate necessary to be borne by the affected 2007 Series A Bonds (or beneficial ownership interests therein) for the relevant Interest Period to enable the Remarketing Agent to remarket such 2007 Series A Bonds (or beneficial ownership interests therein) on the Rate Determination Date therefor at a price (without regard to accrued interest) equal to 100% of the principal amount thereof; provided, however, that in no event shall any rate so determined exceed the Maximum Rate. The interest rate will reflect, among other factors, the level of market demand for the 2007 Series A Bonds (including whether the Remarketing Agent is willing to purchase 2007 Series A Bonds for its own account). There may or may not be 2007 Series A Bonds tendered and remarketed on a Rate Determination Date, the Remarketing Agent may or may not be able to remarket any 2007 Series A Bonds tendered for purchase on such date at par and the Remarketing Agent may sell 2007 Series A Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third-party buyers for all of the 2007 Series A Bonds at the remarketing price. In the event the Remarketing Agent owns any 2007 Series A Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer 2007 Series A Bonds on any date, including the Rate Determination Date, at a discount to par to some investors.

The Ability to Sell the 2007 Series A Bonds Other Than Through the Tender Process May Be Limited. The Remarketing Agent may buy and sell 2007 Series A Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require owners that wish to tender their 2007 Series A Bonds (or beneficial ownership interests therein) to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the 2007 Series A Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their 2007 Series A Bonds other than by tendering the 2007 Series A Bonds (or beneficial ownership interests therein) in accordance with the tender process.

Under certain circumstances, pursuant to the Liquidity Facility the Bank is not obligated to purchase tendered 2007 Series A Bonds. In addition, the Bank may fail to purchase tendered 2007 Series A Bonds even when it is obligated to do so. In both cases, tendered 2007 Series A Bonds would be returned to the holders thereof and bear interest at an interest rate established by the Remarketing Agent that will not exceed the Maximum Rate (or, in the event that the Remarketing Agent fails to determine the interest rate, such 2007 Series A Bond will bear interest at a rate equal to 100% of the SIFMA Index (as defined in APPENDIX C hereto) most recently announced on or prior to each Rate Determination Date). It is not certain that following a failure to purchase 2007 Series A Bonds a secondary market for the 2007 Series A Bonds will develop.

Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the 2007 Series A Bonds, Without a Successor Being Named. Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Eighteenth Supplemental Resolution and the Remarketing Agreement. In the event that the Remarketing Agent is removed or resigns without a successor having been named or the Remarketing Agent ceases its remarketing efforts as aforesaid, the only source of funds for payment of the Purchase Price of 2007 Series A Bonds (or beneficial ownership interests therein) tendered or deemed tendered for purchase would be amounts drawn under the Liquidity Facility then in effect. See "Remarketing and Purchase Price" above. In addition, if for any reason the Remarketing Agent fails to determine the Market Rate for any 2007 Series A Bond (or beneficial ownership interest therein) on a Rate Determination Date, the interest rate to be borne by such 2007 Series A Bond (or beneficial ownership interest therein) shall be determined in the manner described in the second paragraph under "Interest Rates and Interest Modes; Determination of Interest Rates" above.

Following an Immediate Termination Event or suspension of the Liquidity Facility, the Remarketing Agent is no longer obligated to remarket the 2007 Series A Bonds, but is obligated to continue to establish the Market Rate on the 2007 Series A Bonds.

Redemption Provisions

Optional Redemption

The 2007 Series A Bonds are subject to redemption prior to maturity at the election of the City as follows, in whole or in part, at a redemption price of 100% of the principal amount thereof together with accrued interest, if any, to the redemption date:

(a) if the 2007 Series A Bonds are in a Daily or Weekly Mode, on any Business Day;

(b) if the 2007 Series A Bonds are in a Flexible or Term Mode, on any Rate Adjustment Date for the 2007 Series A Bonds to be redeemed; and

(c) if the 2007 Series A Bonds are in the Fixed Mode, on the first day of the Fixed Mode for the 2007 Series A Bonds to be redeemed.

In addition, if the 2007 Series A Bonds are in the Term Mode or the Fixed Mode, the 2007 Series A Bonds are subject to redemption at the election of the City on any date prior to their stated maturity, in whole or in part:

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

(b) during any Interest Period therefor, on any alternate dates and at any alternate prices stated in a certificate of an authorized officer of the City delivered to the Notice Parties prior to the Rate Determination Date for such Interest Period and accompanied by an opinion of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that such substitution of such alternate dates and prices will not adversely affect the exclusion of interest on any 2007 Series A Bond from the gross income of the owner thereof for federal income tax purposes;

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

Sinking Fund Redemption

The 2007 Series A Bonds are subject to redemption through mandatory sinking fund installments on October 1 in the years and in the amounts shown below, at a redemption price of 100% of the principal amount thereof, together with accrued interest, if any, to the redemption date:

Year	Amount	Year	Amount
2018	$365,000	2028	$2,460,000
2019	385,000	2029	2,565,000
2020	1,775,000	2030	15,695,000
2021	1,850,000	2031	16,345,000
2022	1,925,000	2032	17,015,000
2023	400,000	2033	17,720,000
2024	2,095,000	2034	15,720,000
2025	2,185,000	2035	16,370,000
2026	2,270,000	2036	17,040,000*
2027	2,365,000		

*Final maturity.

The particular 2007 Series A Bonds or portions thereof to be redeemed through mandatory sinking fund installments shall be selected by the Trustee in the manner described below under "Selection of 2007 Series A Bonds to be Redeemed." So long as a book-entry system is used for determining ownership of the 2007 Series A Bonds, DTC or its successor and Direct Participants and Indirect Participants will determine the particular ownership interests of 2007 Series A Bonds to be redeemed through mandatory sinking fund installments.

In determining the amount of 2007 Series A Bonds to be redeemed with any sinking fund installment, there will be deducted the principal amount of any 2007 Series A Bonds which have been purchased, to the extent permitted by the Resolution, with amounts in the Debt Service Account (exclusive of amounts deposited from proceeds of Bonds). In addition, if there is any redemption or purchase of any 2007 Series A Bonds with amounts other than moneys on deposit in the Debt Service Account, such 2007 Series A Bonds may be credited against any future sinking fund installment established for the 2007 Series A Bonds as specified by the City at any time, except as described in the penultimate paragraph under "2007 Series A Bank Bonds" above.

Selection of 2007 Series A Bonds to be Redeemed

If fewer than all of the 2007 Series A Bonds of like maturity or interest rate within a maturity of any Series shall be called for prior redemption, the particular 2007 Series A Bonds or portions of 2007 Series A Bonds to be redeemed shall be selected by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate; provided, however, that for any Bond of a denomination of more than the minimum denomination for such Series, the portion of such Bond to be redeemed shall, unless otherwise specified in the Supplemental Resolution relating to such Series, be in a principal amount equal to such minimum denomination or an integral multiple thereof, and that, in selecting portions of such 2007 Series A Bonds for redemption, the Trustee shall treat each such Bond as

representing that number of 2007 Series A Bonds of such minimum denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by the amount of such minimum denomination.

Notice of Redemption

The Trustee shall give notice, in the name of the City, of the redemption of such 2007 Series A Bonds, which notice shall specify the Series and maturities and interest rates within maturities, if any, of the 2007 Series A Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if fewer than all of the 2007 Series A Bonds of any like and maturity and interest rate within maturities are to be redeemed, the letters and numbers or other distinguishing marks of such 2007 Series A Bonds so to be redeemed, and, in the case of 2007 Series A Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall be mailed by first class mail, postage prepaid, or electronically, not less than 20 nor more than 60 days before the redemption date, to the Registered Owners of any 2007 Series A Bonds or portions of 2007 Series A Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books. Failure to give notice by mail, or any defect in such notice, shall not affect the validity of the proceedings for the redemption of 2007 Series A Bonds. Notwithstanding any other provision in the Resolution, notice of optional redemption may be conditioned upon the occurrence or non-occurrence of such event or events as shall be specified in such notice of optional redemption and may also be subject to rescission by the City if expressly set forth in such notice.

Substitution of Liquidity Facility

At any time prior to the giving by the Tender Agent of notice of the mandatory tender of the 2007 Series A Bonds as a result of the expiration of the Liquidity Facility then in effect (see "Mandatory Tender for Purchase – Expiration of Liquidity Facility" above), the City may deliver to the Tender Agent a Substitute Liquidity Facility in substitution for the Liquidity Facility then in effect. In the event of any such substitution, 2007 Series A Bonds in the Daily Mode or the Weekly Mode will be subject to mandatory tender for purchase on the Substitution Date unless the City shall have delivered to the Notice Parties, by not later than the Business Day prior to the date on which the Tender Agent is required to give notice of such mandatory tender pursuant to the Eighteenth Supplemental Resolution, written evidence from each Rating Agency then rating the 2007 Series A Bonds to the effect that such Rating Agency has reviewed the proposed Substitute Liquidity Facility and that the substitution of such Substitute Liquidity Facility for the Liquidity Facility then in effect will not result in a withdrawal, suspension or reduction in such Rating Agency's ratings on the 2007 Series A Bonds. See "Mandatory Tender for Purchase – Substitution of Liquidity Facility" above.

A Substitute Liquidity Facility supporting the 2007 Series A Bonds shall be in an amount at least equal to the Liquidity Facility Requirement for the 2007 Series A Bonds. Any Substitute Liquidity Facility shall become effective with respect to the 2007 Series A Bonds on the Substitution Date therefor established pursuant to the Eighteenth Supplemental Resolution (see the definition of "Substitution Date" in APPENDIX C hereto); provided, however, that the City furnishes to the Tender Agent (i) an opinion of counsel of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that the substitution of such Substitute Liquidity Facility for the Liquidity Facility then in effect is authorized or permitted by the Resolution and will not cause the interest on the 2007 Series A Bonds to

become includable in gross income for federal income tax purposes; (ii) either (A) written evidence from each Rating Agency then rating the 2007 Series A Bonds to the effect that such Rating Agency has reviewed the proposed Substitute Liquidity Facility and stating the ratings of the 2007 Series A Bonds after substitution of such Substitute Liquidity Facility or (B) a statement of an authorized officer of the City that no ratings have been obtained; (iii) if such Substitute Liquidity Facility is other than a letter of credit issued by a domestic commercial bank, an opinion of counsel to the effect that no registration of the 2007 Series A Bonds or such Substitute Liquidity Facility is required under the Securities Act of 1933, as amended; (iv) an opinion of counsel satisfactory to an authorized officer of the City to the effect that such Substitute Liquidity Facility is a valid and enforceable obligation of the issuer or provider thereof; and (v) all information required to give the notice of mandatory tender for purchase of the 2007 Series A Bonds, if required by the Eighteenth Supplemental Resolution.

In the event that the 2007 Series A Bonds are in the Daily Mode or the Weekly Mode, if, in connection with the substitution of a Substitute Liquidity Facility for the Liquidity Facility then in effect, the 2007 Series A Bonds are not subject to mandatory tender for purchase on a Substitution Date (see "Mandatory Tender for Purchase – Substitution of Liquidity Facility" above), the Tender Agent will give notice as hereinafter described to the Holders of such 2007 Series A Bonds by mail, first-class postage prepaid, not less than fifteen and not more than 60 days preceding such Substitution Date. Such notice will (a) state the Substitution Date on which such substitution is expected to become effective; (b) contain a description of such Substitute Liquidity Facility and the bank that is the issuer or provider thereof; and (c) state that if any Holder of a 2007 Series A Bond (or, if the 2007 Series A Bonds are subject to the book-entry only system of registration and transfer described in "Book-Entry Only System" herein, any Beneficial Owner thereof) does not desire to continue to hold such 2007 Series A Bond (or beneficial ownership interest therein) following such substitution, such Holder (or Beneficial Owner) must give notice of the tender of such 2007 Series A Bond (or beneficial ownership interest therein) by the time and in the manner described under the caption "Optional Tender for Purchase" above.

Registration and Transfer; Payment

The 2007 Series A Bonds may be transferred only on the books of the City held at the principal corporate trust office of the Trustee, as Bond Registrar. Neither the City nor the Bond Registrar will be required to transfer or exchange 2007 Series A Bonds (a) for a period beginning with the applicable Record Date and ending with the next succeeding Interest Payment Date, or (b) for a period beginning with a date selected by the Trustee not more than fifteen nor less than ten days prior to a date fixed for the payment of any interest which, at the time, is payable, but has not been punctually paid or duly provided for, and ending with the date fixed for such payment. Interest on any 2007 Series A Bonds will be paid to the person in whose name such 2007 Series A Bond is registered on the applicable Record Date. At such time, if any, as the 2007 Series A Bonds no longer shall be subject to the book-entry only system of registration and transfer described in "INTRODUCTORY STATEMENT - Book-Entry Only System" herein, interest on the 2007 Series A Bonds will be payable by check or draft of the Trustee, as Paying Agent, mailed to the registered owners by first-class mail (or, to the extent permitted by the Resolution, by wire transfer (see "General" above)). At such time, if any, as the 2007 Series A Bonds no longer shall be subject to such book-entry only system of registration and transfer, the principal of all 2007 Series A Bonds will be payable on the date of maturity or redemption or acceleration thereof upon presentation and surrender at the principal corporate trust office of the Paying Agent.

For so long as a book-entry system is used for determining beneficial ownership of the 2007 Series A Bonds, such principal and interest shall be payable to DTC or its nominee. Disbursement of such

payments to the Direct Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners of the 2007 Series A Bonds is the responsibility of the Direct Participants or the Indirect Participants. See "Book-Entry Only System" herein.

LIQUIDITY FACILITY

General

The following summarizes certain provisions of the Liquidity Facility, to which reference is made for the detailed provisions thereof. Copies of the Liquidity Facility may be obtained from the City or its Financial Advisor.

Until its Stated Termination Date (see "INTRODUCTORY STATEMENT — General" herein), liquidity support in connection with tenders for purchase of the 2007 Series A Bonds will be provided by the Bank pursuant to the Liquidity Facility.

Pursuant to the Liquidity Facility, the Bank will agree, subject to the receipt of specified notices and the absence of certain "events of default" (or events which, with the giving of notice or the passage of time, or both, would (unless cured or waived) constitute an "event of default") on the part of the City under the Liquidity Facility, to purchase, for its own account or for the account of a nominee, any 2007 Series A Bonds that are tendered or deemed tendered for purchase and not remarketed (hereinafter referred to as "Tendered Bonds"), at the Purchase Price therefor. Funds provided by the Bank for such purpose will be required to be deposited on the Purchase Date into the 2007 Series A Bond Liquidity Proceeds Account in the 2007 Series A Bond Purchase Fund held by the Tender Agent, and are to be applied, on such Purchase Date, to the purchase, for the account of the Bank (or such nominee), of such Tendered Bonds. The events that permit the Bank not to purchase Tendered Bonds under the Liquidity Facility are described in clauses (d), (f), (g), (h), (i) and (j) under "Events of Default" below.

The commitment of the Bank to purchase 2007 Series A Bonds will terminate on the Stated Termination Date of the Liquidity Facility; *provided, however,* that the Bank's commitment will be immediately terminated or suspended upon the occurrence of certain "events of default" (or events which, with the giving of notice or the passage of time, or both, would (unless cured or waived) constitute an "event of default") on the part of the City under the Liquidity Facility as described in the first two paragraphs under "Remedies of the Bank" below.

Events of Default

Each of the following events will constitute an "Event of Default" under the Liquidity Facility:

(a) the City shall fail to pay when due any fees or any other amount payable under the Liquidity Facility;

(b) the City shall fail to observe or perform any covenant or agreement contained in the Liquidity Facility, other than those covered by clause (a) above, or in the Resolution, the Tender Agency Agreement, the Custody Agreement (as defined in APPENDIX D hereto) and the 2007 Series A Bonds (such documents being hereinafter referred to collectively as the

"Financing Documents") for 45 days after written notice thereof has been given to the City by the Bank;

(c) any representation, warranty, certification or statement made by the City (or incorporated by reference) in the Liquidity Facility or any Financing Document or in any certificate, financial statement or other document delivered pursuant to the Liquidity Facility or any Financing Document shall prove to have been incorrect in any material respect when made (or deemed made);

(d) the City shall fail to make any payment in respect of any regularly scheduled principal or interest on any Bonds or any payment in respect of accelerated Bonds (other than any 2007 Series A Bank Bonds the principal of which has become payable as described in the fourth paragraph under "Remedies of the Bank" below) when due or within any applicable grace period;

(e) any event or condition shall occur which (i) results in the acceleration of the maturity of any Bond or any of the City's other Indebtedness (as defined in APPENDIX D hereto) relating to the System or (ii) enables (or, with the giving of notice or lapse of time or both, would enable) the holder of such Bond or Indebtedness or any person acting on such holder's behalf to accelerate the maturity thereof, in either such case, other than any event or condition that entitles the Bank to tender 2007 Series A Bank Bonds to the City for payment as described in the fourth paragraph under "Remedies of the Bank" below;

(f) the City shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any action to authorize any of the foregoing;

(g) an involuntary case or other proceeding shall be commenced against the City seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 90 days; or an order for relief shall be entered against the City under the federal bankruptcy laws or applicable state law as now or hereafter in effect;

(h) a final, non-appealable judgment (or judgments) or an order (or orders) for the payment of money, or a portion thereof pursuant to a payment schedule, shall, individually or in the aggregate, be payable by the City from the revenues of the System in an amount equal to or greater than $35,000,000 in a particular fiscal year of the City, and such judgment(s) or order(s) (or portions thereof) shall continue unsatisfied, unstayed or not bonded for a period of 60 days;

(i) any material provision of the Liquidity Facility or any Financing Document related to the payment of principal of or interest on the 2007 Series A Bonds or the security for the 2007 Series A Bonds shall, in either case, at any time cease to be valid and binding on the City, or shall be declared to be null and void, in either such case, as a result of a final, non-appealable judgment of a court of competent jurisdiction or by any Governmental Authority (as defined in APPENDIX D hereto) having jurisdiction, or any Governmental Authority having jurisdiction shall find or rule in a final non-appealable judgment or order that any material provision of the Liquidity Facility or any Financing Document related to the payment of principal of or interest on the 2007 Series A Bonds or the security for the 2007 Series A Bonds is not valid or binding on the City, or the validity or enforceability thereof shall be contested by the City; or

(j) the long-term portions of the ratings of the 2007 Series A Bonds (without taking into account third-party credit enhancement) are withdrawn or suspended or reduced below "Baa3" by Moody's and "BBB-" by S&P for credit-related reasons.

Remedies of the Bank

Upon the occurrence and continuance of an Event of Default described in clause (d), clause (f), clause (g), clause (h), clause (i) or clause (j) under "Events of Default" above (each, an "Immediate Termination Event"), without any notice to the City, the Remarketing Agent or the Tender Agent or any other act by the Bank, the commitment of the Bank to purchase Tendered Bonds under the Liquidity Facility will thereupon terminate. Promptly upon the occurrence of such Event of Default, the Bank will be required to give written notice of the same to the City, the Tender Agent and the Remarketing Agent, but the Bank will not incur any liability or responsibility whatsoever by reason of its failure to give such notice and such failure will in no way affect the termination of the commitment of the Bank to purchase Tendered Bonds pursuant to the Liquidity Facility.

Upon the occurrence and continuance of any Event of Default (other than as specified in the preceding paragraph), the Bank may, at its option, elect to terminate its commitment to purchase Tendered Bonds under the Liquidity Facility, by giving written notice to the City, the Remarketing Agent and the Tender Agent to the effect that an Event of Default on the part of the City has occurred and is continuing under the Liquidity Facility, and directing the Tender Agent to effect a mandatory tender of all of the Bonds. The obligation of the Bank to purchase Tendered Bonds under the Liquidity Facility shall terminate on the thirtieth (30th) day (or if such day is not a Business Day, the next following Business Day) after such written notice is received by the Tender Agent. See "THE 2007 SERIES A BONDS — Mandatory Tender for Purchase — *Liquidity Facility Default"* herein.

Upon the occurrence and during the continuance of a Default (as defined in APPENDIX D hereto) described in clause (g) under "Events of Default" above (a "Suspension Event"), the obligation of the Bank to purchase Tendered Bonds under the Liquidity Facility will be immediately and automatically suspended, without notice, and the Bank will be under no further obligation under the Liquidity Facility to purchase Tendered Bonds until the bankruptcy, insolvency or similar proceeding referred to therein is terminated prior to the court entering an order granting the relief sought in such proceeding. In the event such proceeding is terminated, then the obligation of the Bank to purchase Tendered Bonds under the Liquidity Facility will be automatically reinstated and the terms of the Liquidity Facility will continue in full force and effect (unless the obligation of the Bank to purchase Tendered Bonds under the Liquidity Facility otherwise has terminated as provided

therein) as if there had been no such suspension. If at any time prior to the earlier of (i) the Stated Termination Date and (ii) the date that is four (4) years following the suspension of the obligation of the Bank to purchase Tendered Bonds, (x) the Default which gave rise to such suspension is cured or has ceased to be continuing and (y) the obligation of the Bank to purchase Tendered Bonds under the Liquidity Facility has not otherwise terminated, then, upon written notice from the Tender Agent to the Bank to such effect, the obligation of the Bank to purchase Tendered Bonds under the Liquidity Facility will be automatically reinstated. If the Default which gave rise to the suspension of the obligation of the Bank to purchase Tendered Bonds under the Liquidity Facility has not been cured or has not ceased to be continuing prior to the four (4) year anniversary of such occurrence and the obligation of the Bank to purchase Tendered Bonds under the Liquidity Facility has not otherwise terminated, then the obligation of the Bank to purchase Tendered Bonds will be automatically terminated. Promptly upon the occurrence of such termination, the Bank will be required to give written notice of the same to the City, the Tender Agent and the Remarketing Agent, but the Bank will not incur any liability or responsibility whatsoever by reason of its failure to give such notice and such failure will in no way affect the termination of the Bank's obligation to purchase Tendered Bonds under the Liquidity Facility.

Upon the occurrence and continuance of any Event of Default described under "Events of Default" above, the Bank may, at its option, by notice to the City, tender any or all 2007 Series A Bank Bonds for payment to the City and the City will thereupon be obligated to pay immediately the outstanding principal amount of each 2007 Series A Bank Bond (together with accrued interest thereon) so tendered, without presentment, demand, protest or other notice of any kind, all of which will be waived by the City; *provided, however,* that in the case of any of the Immediate Termination Events, without any notice to the City or any other act by the Bank, all 2007 Series A Bank Bonds will immediately be deemed to be tendered for payment to the City and the City will be obligated to pay immediately the outstanding principal amount of such 2007 Series A Bank Bonds (together with accrued interest thereon) without presentment, demand, protest or notice of any kind, all of which will be waived by the City.

In addition, upon the occurrence and continuance of any Event of Default described under "Events of Default" above, the Bank will be entitled to exercise any other remedies available to it at law or in equity, including, without limitation, the remedy of specific performance.

THE BANK

The information relating to the Bank set forth below has been furnished by the Bank for inclusion in this Reoffering Memorandum. No representation is made herein by the City as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date of this Reoffering Memorandum. The City has not made any independent investigation of the Bank.

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*. 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*.

Any statement contained in any document referred to above shall be deemed to be modified or superseded for purposes of this Reoffering 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 Reoffering 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 Liquidity Facility is an obligation solely of the Bank and is not an obligation of, or otherwise guaranteed by, the Corporation or any of its affiliates (other than the Bank). Neither the Corporation nor any of its affiliates (other than the Bank) is required to make payments under the Liquidity Facility. None of the Bank, the Corporation or any of their respective affiliates makes any representation as to, or is responsible for the suitability of the 2007 Series A Bonds for any investor, the feasibility or performance of any project or compliance with any securities or tax laws or regulations. The 2007 Series A Bonds are not direct obligations of, or guaranteed by, the Bank, the Corporation or any of their respective affiliates, except to the extent provided by in the Liquidity Facility.

Neither the Bank nor its affiliates make any representation as to the contents of this Reoffering Memorandum (except as to this caption to the extent it relates to the Bank), the suitability of the 2007 Series A Bonds for any investor, the feasibility or performance of any project or compliance with any securities or tax laws or regulations.

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 Expires
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 Country, 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[(1)]	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

(1) 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[(1)]
(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%

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

Interchange and Economy Wholesale Purchases

Interchange and economy wholesale purchases made when power is available from the market at prices below the System's production costs are among the factors that allow the System to assure competitive power costs for retail and firm wholesale customers. Purchases 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 8th, 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
Plant Name	Unit No.	Primary	Alternative	(MW)
JRK Station				
	Steam Unit 8	Waste Heat	—	36
	Combustion Turbine 4	Natural Gas	Distillate Fuel Oil	72
				108
Deerhaven Generating Station				
	Steam Unit 2	Bituminous Coal	—	228
	Steam Unit 1	Natural Gas	Residual Fuel Oil	75
	Combustion Turbine 3	Natural Gas	Distillate Fuel Oil	71
	Combustion Turbine 2	Natural Gas	Distillate Fuel Oil	17.5
	Combustion Turbine 1	Natural Gas	Distillate Fuel Oil	17.5
				409
South Energy Center				
	SEC-1	Natural Gas	—	3.5
	SEC-2	Natural Gas	—	6.9
				10.4
Plant Entitlement	DHR	Biomass	—	102.5
Total Owned Resources				629.9
Baseline Landfill		Landfill Gas	—	3.7
Total Available Capacity				**633.6**
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_2"), acid gas, and mercury ("Hg") reduction, and a selective catalytic reduction ("SCR") system for reduction of the oxides of nitrogen ("NO_x") to meet or exceed regulatory requirements.

Since 2009, the operational mode of DH 2 has shifted from a high capacity factor base load to deep load cycling operation. This is the result of many factors including: flat megawatt-hour sales. 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_x and fabric filters for particulate control. The type of fuel to be employed makes it

unnecessary to control SO_2 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 then 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 compliment 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,					
	2018	2019	2020	2021	2022	Total
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)[1]	Firm Interchange Sales (MW)	Peak Load (MW)[2]	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	62626	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%

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

(2) 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,					
	2018	2019	2020	2021	2022	Total
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
Total	$17,202,827	$14,186,778	$7,314,502	$13,118,558	$13,322,228	$65,144,893

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 carrousel advanced wastewater treatment activated sludge system. The treatment processes conclude with filtration and disinfection prior to discharge into aquifer recharge wells and a reclaimed water distribution system. The disinfection system was recently modified to meet more stringent regulatory limits. The System consistently meets the required primary and secondary drinking water standards for discharge to recharge wells as set forth in its NPDES permit.

The 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,					
	2018	2019	2020	2021	2022	Total
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,					
	2018	2019	2020	2021	2022	Total
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
Total	$2,894,197	$3,047,744	$2,391,201	$3,265,564	$4,487,230	$16,085,936

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	$12,233,643	$12,816,606	$13,517,968	$14,226,322	$14,937,014	$15,667,373
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,					
	2018	2019	2020	2021	2022	Total
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
Total GRUCom	$4,042,788	$1,505,575	$1,024,191	$1,356,693	$1,776,384	$9,705,631

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.

Electric System
Base Rate Revenue Requirements, Fuel and Purchased Power Adjustment and Total Bill Changes[4]

	Percentage Base Rate Revenue Requirements Increase/(Decrease)[1]	Percentage Fuel and Purchased Power Adjustment Increase/(Decrease)[2]	Total Residential Bill Percentage Increase/(Decrease)[3]
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)[3]
October 1, 2016	0.00	(3.70)	(2.00)
October 1, 2017	2.00	0.00	1.15
February 1, 2018[4]	31.40	(50.00)	(8.00)
Projected (Fiscal Year Beginning):[5]			
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

(1) 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.

(2) Historical change in weighted average retail fuel adjustment.

(3) Based on residential monthly bill at 1,000 kwh.

(4) Changes resulting from the acquisition of the DHR Biomass Plant.

(5) 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[(1)]

		General Service		
	Residential 1,000 kWh	Non-Demand 1,500 kWh	Demand 30,000 kWh 75 kW	Large Power 430,000 kWh 1,000 kW
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
Gainesville Regional Utilities	**$121.00**	**$215.50**	**$3,665.50**	**$49,359.00**
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

(1) 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[1]	Total Bill Increase[2]
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[3]		
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

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

(2) Based on monthly bill at 5 Kgal.

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

The table below presents wastewater system 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[1]	Total Bill Increase[2]
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[3]		
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

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

(2) Based on monthly bill at 5 Kgal.

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

Rates and Charges for Water and Wastewater Services

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

Residential customers are subject to inverted block rates. As of October 1, 2015, the first tier pricing is applied to the first 4,000 gallons used, the second tier pricing is applied to 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

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

Table 2. Current Monthly Charges For Water and Wastewater Services

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

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

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

Comparison with Other Cities

The System's average water and wastewater charges in effect for the month of 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[(1)]

	Water	Wastewater	Total
Gainesville Regional Utilities	**$30.50**	**$53.20**	**$83.70**
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

(1) 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)[1]	Percentage Purchased Gas Adjustment Revenue Increase/(Decrease)[2]	Total Bill Increase/(Decrease)[3]
Historical			
October 1, 2013	0.85	0.00	(0.60)
October 1, 2014	4.25[4]	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%[5]	0.00%[5]
Projected[4]			
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

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

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

(3) Based on monthly residential bill at 25 therms.

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

(5) 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[1]

	Residential 25 therms	General Firm 300 therms	Large Volume 30,000 therms
Gainesville Regional Utilities	**$32.64**	**$262.68**	**$17,068.00**
Okaloosa Gas District	$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[2]	$47.89	$348.96	$27,675.70
Lakeland[2]	$47.89	$348.96	$27,675.70
Orlando[2]	$47.89	$348.96	$27,675.70
Tampa[2]	$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

(1) 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.

(2) Service provided by People's Gas.

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

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

The following table shows comparisons of the total monthly cost for a "basket" of electric, gas, water and wastewater services for residential customers in selected Florida locales for the month of 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[1]

	Based Upon Typical Average Usage by Residential Customers of the System[2]	Based Upon Standard Industry Usage Benchmarks[3]
Tampa	$173.21	$222.56
Kissimmee	$175.38	$214.48
Orlando	$177.74	$226.74
Lakeland	$178.99	$219.17
Gainesville Regional Utilities	**$182.01**	**$237.34**
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

(1) 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.

(2) 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.

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

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

Since the System's rates for electric, water and wastewater service are designed to encourage conservation, 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
Revenues:					
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	$355,892	$384,856	$406,410	$420,304	$430,295
Operation and Maintenance Expenses[(1)]:					
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	$214,393	$254,013	$268,753	$279,504	$290,051
Net Revenues:					
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	$141,499	$130,843	$137,657	$140,800	$140,243
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[(2)]	$11,789	$5,182	$6,178	$6,205	6,583
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[(3)]	2.08[(3)]	2.18[(3)]	2.23[(3)]	2.27[(3)]	2.24[(3)]

[Footnotes appear on following page]

(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:

	2018	2019	2020	2021	2022
Liquidity Targets:	$61,721,696	$62,861,136	$$64,053,679	$65,863,464	$67,271,957
Operating Cash[1]	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[2]	23,381,159	25,439,366	29,289,961	24,284,692	28,155,560
Total Reserves:	**$94,141,551**	**$91,541,525**	**$94,806,809**	**$89,353,742**	**$94,135,639**
Tax-Exempt CP/ Taxable CP Lines[3]	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000
Total Liquidity and Lines	$134,141,551	$131,541,525	$134,806,809	$129,353,742	$134,135,639
Over/Under Target	**$72,419,855**	**$68,680,389**	**$70,753,130**	**$63,490,278**	**$66,863,682**

(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.

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

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

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

Source: Prepared by the Finance Department of the System.

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

	Projected Transfers to General Fund	
Fiscal Years ended September 30,	Amount	% Increase/(Decrease)
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:

Series	Bank	Expiration
2005C	Landesbank Hessen Thüringen Girozentrale	November 24, 2020
2006A	Landesbank Hessen Thüringen Girozentrale	November 24, 2020
2007A	State Street Bank and Trust Company	March 1, 2018
2008B	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 _____, _____. 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 _____, _____. 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.

Funding the Capital Improvement Program - Additional Financing Requirements

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

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

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_2 and NO_x into the air; discharges of pollutants, including heat, into surface or ground water; the disposal of wastes and reuse of products generated by wastewater treatment and combustion processes; management of hazardous materials; and the nature of waste materials discharged into the wastewater system's collection facilities. Environmental regulations generally are becoming more numerous and more stringent and, as a result, may substantially increase the costs of the System's services by requiring changes in the operation of existing facilities as well as changes in the location, design, construction and operation of new facilities (including both facilities that are owned and operated by the System as well as facilities that are owned and operated by others, 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_2 and NO_X from existing and new fossil-fueled electric generating plants, (2) provisions related to toxic or hazardous pollutants, and (3) requirements to address regional haze.

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

The Cross-State Air Pollution Rule (CSAPR)

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

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

On July 28, 2015, the D.C. Circuit ruled that Florida's allowance budget is invalid and remanded CSAPR to the EPA. On October 26, 2016 EPA published, in the *Federal Register* at 81 Fed. Reg. 74504, an update to the CSAPR to address the 2008 Ozone National Ambient Air Quality Standards ("NAAQS"). For three states (North Carolina, South Carolina and Florida), the EPA is removing the states from the CSAPR ozone season NOx trading program because modeling for the Final Rule indicates that these states do not contribute significantly to ozone air quality problems in downwind states under the 2008 ozone NAAQS. Therefore, GRU will not have to meet ozone season limits in 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_2 and NO_x. On November 25, 2014, the United States Supreme Court accepted certiorari to hear challenges to the mercury rules.

On June 29, 2015, the U.S. Supreme Court issued a 5-to-4 decision reversing 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_2 and NO_X emissions from utility sources. The states were to develop their regional haze implementation plans by December 2007, identifying the facilities that will have to reduce emissions and then set emissions limits for those facilities. However, states have not met that schedule and on January 15, 2009, the EPA published a notice finding that 37 states (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_2 and NO_X emissions that potentially contribute to regional haze.

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

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

Internal Combustion Engine MACT

On August 20, 2010, the EPA published a final rule for the National Emissions Standards for Hazardous Air Pollutants for Reciprocating Internal Combustion Engines, which covers existing stationary spark ignition reciprocating internal combustion engines located at major sources of hazardous air pollutant emissions such as power plant sites. This final rule, which became effective on October 19, 2010, requires the reduction of emissions of hazardous air pollutants from covered engines. Several of the System's reciprocating engines are covered by this 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_2") 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 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.

TAX MATTERS

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

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

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

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

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

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

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

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

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

RATINGS

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

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

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

LITIGATION

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

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

CONTINGENT FEES

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

LEGAL MATTERS

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

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

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

INDEPENDENT AUDITORS

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

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

FINANCIAL ADVISOR

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

REMARKETING AGENT

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

DISCLOSURE REQUIRED BY FLORIDA BLUE SKY REGULATION

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

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

ACCURACY AND COMPLETENESS OF OFFERING MEMORANDUM

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

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

CERTIFICATION OF OFFERING MEMORANDUM

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

CITY OF GAINESVILLE, FLORIDA

By:_____
General Manager for Utilities

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

General

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

Organization and Administration

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

The following are the current members of the City Commission:

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

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

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

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

Population

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

POPULATION GROWTH

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

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

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

Employment

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

EMPLOYMENT

Year	Unemployment Rate
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)

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

Source: Finance Department, City of Gainesville, Florida.

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Property Tax Data

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

ASSESSED VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS

		Just Value			Exemptions						
Fiscal Year Ended 09/30	Tax Year	Real Property	Personal Property	Centrally Assessed Property	Governmental	Agricultural	Institutional	Homestead	Other (1)	Total Taxable Assessed Value	Total Direct Tax Rate
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[1]	City Fiscal Year[2]	Net Taxable Value for Local Levies[3]	Local Property Tax Rates (Mills) General Government[4]	Local Property Tax Levies ($) General Government	Total Taxes Levied
2006	2006-07	$4,969,172,232	4.8509	$24,104,957	$24,104,957
2007	2007-08	5,633,362,264	4.2544	23,966,576	23,966,576
2008	2008-09	5,666,337,079	4.2544	24,106,864	24,106,864
2009	2009-10	5,886,019,548	4.3963	25,876,708	25,876,708
2010	2010-11	5,608,220,528	4.2544	23,859,613	23,859,613
2011	2011-12	5,402,238,297	4.2544	22,983,283	22,983,283
2012	2012-13	5,163,658,711	4.4946	23,208,580	23,208,580
2013	2013-14	5,174,659,235	4.5780	23,689,590	23,689,590
2014	2014-15	5,643,317,160	4.5079	25,439,509	25,439,509
2015	2015-16	5,769,528,673	4.5079	26,008,458	26,008,458
2016	2016-17	6,025,643,439	4.5079	26,153,549	26,153,549

(1) Tax roll year as of January 1.

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

(3) Sum of real and personal property value.

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

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

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

PROPERTY TAX LEVIES AND COLLECTIONS LAST TEN FISCAL YEARS

Fiscal Year Ended	Total Tax Levy for	Collected within the Fiscal Year of the Levy		Collections in Subsequent	Total Collections to Date	
September 30,	Fiscal Year	Amount	Percentage of Levy	Years	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)

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

Source: Finance Department, City of Gainesville, Florida.

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

OVERLAPPING GENERAL OBLIGATION DEBT[(1)]

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

(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

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

Source: Finance Department, City of Gainesville, Florida.

DEBT SUMMARY[1]
AS OF SEPTEMBER 30, 2017

	Gross	Net
General Obligation Debt	$0	$0
Debt Payable from Non-Ad Valorem Revenues[2]	125,524,025	125,524,025
General Obligation Overlapping Debt[3]	0	0
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

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

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

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

Source: Finance Department, City of Gainesville, Florida.

PRINCIPAL TAXPAYERS

Tax Roll Year 2017

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

Source: Finance Department, City of Gainesville, Florida.

LIABILITIES OF THE CITY

Insurance Considerations Affecting the City

General

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

Workers' Compensation, Auto, and General Liability Insurance

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

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

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

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

Fiscal Year	Beginning of Fiscal Year Liability	Incurred	Payments	End of Fiscal Year Liability
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:

Fiscal Year	Beginning of Fiscal Year Liability	Incurred	Payments	End of Fiscal Year Liability
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:

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

Other Post-Employment Benefit & Retiree Health Care Plan

Plan Description.

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

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

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

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

Annual OPEB Cost and Net OPEB Obligation

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

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

Year Ended	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net Ending OPEB Obligation (Asset)
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 Accrued Liability (AAL) Entry Age (b)	Unfunded (UAAL) (b) – (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll (b-a)/c
9/30/17	$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.]

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Direct Debt

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

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

(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:

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

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

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

Employees are eligible for normal retirement:

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

Employees are eligible for early retirement:

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

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

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

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

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

Death benefits are paid as follows:

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

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

Employees covered by benefit terms. At September 30, 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	428
Total	3,213

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

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

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

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

Components of Net Pension Liability

Total pension liability	$537,712,710
Plan fiduciary net position	(396,313,562)
City's net pension liability	$141,399,148
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

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

Discount Rate:

The discount rates used to measure the total pension liability were 8.10% 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	38,365,290	39,015,291	(650,001)
Balances at 09/30/2017	$537,712,710	$396,313,562	$141,399,148

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

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

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

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

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

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

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

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:

Fiscal Year	Net Deferred Outflows/(Inflows) of Resources
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 1st if the retiree has reached eligibility for COLA prior to that date. Eligibility for COLA is determined as follows:

- If the retiree was eligible for retirement on or before 07/01/2013 and had at least 25 years of credited service upon retirement, 2% COLA begins after reaching age 55.
- If the retiree was eligible for retirement on or before 07/01/2013 had 20 years of credited service upon retirement, 2% COLA begins after reaching age 62.
- If the retiree was eligible for retirement after 07/01/2013 and had 25 years of credited service upon retirement 1% COLA begins after reaching age 55 and the COLA increases to 2% after reaching age 62.
- If the retiree retired under the Rule of Seventy with less than 20 years of credited service upon retirement, COLA begins after age 62. Effective July 1, 2013, Police Officers retiring under the Rule of Seventy are ineligible for COLA.

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

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

Retirement eligibility for Firefighters is as follows:

Employees are eligible for normal retirement:

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

Employees are eligible for early retirement:

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

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

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

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

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

Death benefits are paid as follows:

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

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

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

Active employees	393
Inactive employees:	
Retirees and beneficiaries currently receiving benefits	427
Vested terminated members entitled to future benefits	20
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 20, 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	(241,763,801)
City's net pension liability	$35,812,273
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

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

Discount Rate:

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

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Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
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	$277,576,074	$241,763,801	$35,812,273

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

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

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

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

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

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

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

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:

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

APPENDIX B

AUDITED FINANCIAL STATEMENTS

APPENDIX C-1

COMPOSITE OF THE RESOLUTION

APPENDIX C-2

SPRINGING AMENDMENTS TO THE RESOLUTION

APPENDIX D

DEBT SERVICE REQUIREMENTS

APPENDIX E-1

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

APPENDIX E-2

2018 NO ADVERSE EFFECT APPROVING OPINION OF BOND COUNSEL