

*In the opinion of Holland & Knight LLP, Bond Counsel, assuming compliance with certain arbitrage rebate and other tax requirements referred to herein, under existing law, interest on the 2017A Bonds is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference in computing the alternative minimum tax on individuals and corporations. Interest on the 2017A Bonds will, however, be taken into account in computing an adjustment made in determining a corporate 2017A Bondholder's alternative minimum tax based on such 2017A Bondholder's adjusted current earnings, and holders of 2017A Bonds could be subject to the consequences of other provisions of the Internal Revenue Code of 1986, as amended, as further described herein. See “TAX EXEMPTION” herein.*

**\$415,920,000**  
**CITY OF GAINESVILLE, FLORIDA**  
**Utilities System Revenue Bonds,**  
**2017 Series A**



**Dated:** Date of Delivery

**Due:** October 1, as shown on the inside cover page

The City of Gainesville, Florida (the “City”) is issuing its Utilities System Revenue Bonds, 2017 Series A (the “2017A Bonds”) as fully registered bonds, which initially will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”). Individual purchases will be made in book-entry form only in denominations as described herein. Purchasers of the 2017A Bonds (the “Beneficial Owners”) will not receive physical delivery of the 2017A Bonds. Transfer of beneficial ownership in the 2017A Bonds will be effected through DTC’s book-entry system as described herein. As long as Cede & Co. is the Registered Owner as nominee of DTC, principal and interest payments will be made directly to such Registered Owner which will in turn remit such payments to the Participants (as defined herein) for subsequent disbursement to the Beneficial Owners.

The 2017A Bonds are being issued pursuant to the authority of and in full compliance with the Amended and Restated Utilities System Revenue Bond Resolution adopted by the City on June 6, 1983, as amended, restated and supplemented (the “Resolution”), including as amended by Supplemental Resolution No. 170405 adopted by the City on September 21, 2017, and as supplemented by the Twenty-Seventh Supplemental Utilities System Revenue Bond Resolution No. 170394 adopted by the City on September 21, 2017 (the “Twenty-Seventh Supplemental Resolution”), authorizing the 2017A Bonds; 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 2017A Bonds, the Registered Owners and Beneficial Owners thereof shall be deemed to have consented in writing to such Springing Amendments as further described herein.**

The 2017A Bonds are being issued by the City for the primary purpose of (i) financing a portion of the costs of acquisition of the Gainesville Renewable Energy Center Power Generation Station (the “GREC Biomass Plant”), and (ii) paying costs of issuance.

The 2017A Bonds will bear interest from their dated date payable each April 1 and October 1, commencing April 1, 2018. Principal of the 2017A Bonds is payable, when due, to Cede & Co. as the Registered Owner by U.S. Bank National Association, as Trustee, Paying Agent and Bond Registrar. All payments of principal of, redemption premium, if applicable, and interest on the 2017A Bonds shall be payable in lawful money of the United States of America.

Certain of the 2017A Bonds will be subject to redemption prior to maturity as described herein.

THE 2017A BONDS WILL 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 2017A 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 2017A BONDS OR THE MAKING OF ANY PAYMENTS UNDER THE RESOLUTION. THE 2017A BONDS AND THE OBLIGATIONS EVIDENCED THEREBY WILL NOT CONSTITUTE A LIEN ON ANY PROPERTY OF OR IN THE CITY, OTHER THAN THE TRUST ESTATE.

This cover page contains certain information for quick reference only. It is not, and is not intended to be, a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

*The 2017A Bonds are offered when, as, and if issued and received by the Underwriters, subject to the opinion on certain legal matters relating to their issuance by Holland & Knight LLP, Lakeland, Florida, Bond Counsel. Certain legal matters will be passed upon for the City by Nicolle M. Shalley, Esq., City Attorney and Bryant Miller Olive P.A., Tampa, Florida, Disclosure Counsel to the City and for the Underwriters by Nixon Peabody LLP, New York, New York. PFM Financial Advisors LLC, Charlotte, North Carolina is Financial Advisor to the City in regard to the issuance of the 2017A Bonds. It is expected that the 2017A Bonds in definitive form will be available for delivery to the Underwriters in New York, New York at the facilities of DTC on or about November 7, 2017.*

**Goldman Sachs & Co. LLC**  
**Barclays**

**Citigroup**

**BofA Merrill Lynch**  
**Ramirez & Co., Inc.**

**Wells Fargo Securities**

**MATURITIES, AMOUNTS, INTEREST RATES,  
YIELDS, PRICES AND INITIAL CUSIP NUMBERS  
\$415,920,000  
Utilities System Revenue Bonds,  
2017 Series A**

**\$415,920,000 Serial Bonds**

<b><u>Maturity (October 1)</u></b>	<b><u>Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Yield</u></b>	<b><u>Price</u></b>	<b><u>Initial CUSIP No.**</u></b>
2018	\$3,000,000	5.00%	1.00%	103.573	362848TQ6
2019	5,000,000	5.00	1.09	107.331	362848TR4
2020	12,580,000	5.00	1.21	110.767	362848TS2
2021	13,175,000	5.00	1.35	113.820	362848TT0
2022	13,770,000	5.00	1.50	116.473	362848TU7
2023	14,395,000	5.00	1.64	118.820	362848TV5
2024	15,235,000	5.00	1.79	120.746	362848TW3
2025	15,750,000	5.00	1.93	122.392	362848TX1
2026	16,480,000	5.00	2.07	123.702	362848TY9
2027	17,245,000	5.00	2.17	125.088	362848TZ6
2028	18,230,000	5.00	2.31	123.681*	362848UA9
2029	18,900,000	5.00	2.41	122.688*	362848UB7
2030	19,785,000	5.00	2.51	121.704*	362848UC5
2031	20,715,000	5.00	2.58	121.021*	362848UD3
2032	21,880,000	5.00	2.64	120.439*	362848UE1
2033	22,730,000	5.00	2.71	119.765*	362848UF8
2034	23,810,000	5.00	2.77	119.190*	362848UG6
2035	24,945,000	5.00	2.82	118.714*	362848UH4
2036	26,325,000	5.00	2.84	118.524*	362848UJ0
2037	27,400,000	5.00	2.86	118.334*	362848UK7
2038	28,720,000	4.00	3.19	106.827*	362848UL5
2039	29,815,000	4.00	3.22	106.564*	362848UM3
2040	6,035,000	4.00	3.24	106.390*	362848UN1

\* Priced to the first optional call date of October 1, 2027.

\*\* The City is not responsible for the use of the CUSIP Numbers referenced herein nor is any representation made by the City as to their correctness. The CUSIP Numbers provided herein are included solely for the convenience of the readers of this Official Statement.

CITY OF GAINESVILLE, FLORIDA

CITY OFFICIALS

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

CHARTER OFFICERS

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

UTILITIES SYSTEM

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

BOND COUNSEL

Holland & Knight LLP  
Lakeland, Florida

DISCLOSURE COUNSEL

Bryant Miller Olive P.A.  
Tampa, Florida

FINANCIAL ADVISOR

PFM Financial Advisors LLC  
Charlotte, North Carolina

---

\*Also a Charter Officer.

\*\*Reports to and works under the direction and supervision of the City Attorney.

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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 2017A Bonds other than as contained in this Official Statement, and, if given or made, such information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2017A 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 and other sources which are believed to be reliable, but which is not guaranteed as to accuracy 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 Official Statement 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 Underwriters have reviewed the information in this Official Statement in accordance with and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. This Official Statement is submitted in connection with the sale of the 2017A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2017A BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS, BANKS OR OTHERS AT PRICES LOWER OR HIGHER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

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 2017A Bonds are qualified in their entirety by reference to the form thereof included in the aforesaid documents and agreements.

The City maintains a website. However, the information presented therein is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2017A Bonds. The reference to internet websites in this Official Statement are shown for reference and convenience only. Unless explicitly stated to the contrary, the information contained within the websites is not incorporated herein by reference and does not constitute part of this Official Statement.

NO REGISTRATION STATEMENT RELATING TO THE 2017A 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 2017A 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 OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

CERTAIN STATEMENTS INCLUDED OR INCORPORATED BY REFERENCE IN THIS OFFICIAL STATEMENT 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 OFFICIAL STATEMENT DOES NOT CONSTITUTE A CONTRACT BETWEEN THE CITY AND ANY ONE OR MORE OF THE OWNERS OF THE 2017A BONDS.

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APPENDIX F	Form of Continuing Disclosure Certificate



**OFFICIAL STATEMENT**  
**relating to**

**\$415,920,000**

**CITY OF GAINESVILLE, FLORIDA**  
**Utilities System Revenue Bonds,**  
**2017 Series A**

**INTRODUCTORY STATEMENT**

**General**

This Official Statement, which includes the cover page and inside cover page hereof and the appendices attached hereto, provides certain information in connection with the sale by the City of Gainesville, Florida (the "City") of its \$415,920,000 Utilities System Revenue Bonds, 2017 Series A (the "2017A Bonds"). Definitive copies of all reports and documents not reproduced in this Official Statement may be obtained from the Utilities Administration Building, 301 SE 4th Avenue, Gainesville, Florida 32601. The City can be contacted by telephone at (352) 334-5000. 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 Chapter 90-394, Laws of Florida, 1990, as amended (the "Charter"). The City-owned utilities do business as Gainesville Regional Utilities ("Gainesville Regional Utilities" or "GRU").

The 2017A Bonds are being issued pursuant to the authority of and in full compliance with the Amended and Restated Utilities System Revenue Bond Resolution adopted by the City on June 6, 1983, as amended, restated and supplemented (the "Resolution"), including as amended by Supplemental Resolution No. 170405 adopted by the City on September 21, 2017, and as supplemented by the Twenty-Seventh Supplemental Utilities System Revenue Bond Resolution No. 170394 adopted by the City on September 21, 2017 (the "Twenty-Seventh Supplemental Resolution"), authorizing the 2017A Bonds; 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 2017A 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.

Concurrently with the issuance of the 2017A Bonds, the City is separately issuing \$150,000,000 aggregate principal amount of its Variable Rate Utilities System Revenue Bonds, 2017 Series B (the "2017B Bonds") and \$115,000,000 aggregate principal amount of its Variable Rate Utilities System Revenue Bonds, 2017 Series C (the "2017C Bonds, and together with the 2017B Bonds, the "2017B/C Bonds"). The 2017A

Bonds and the 2017B/C Bonds are collectively hereafter referred to as the "2017 Bonds." As of the date of this Official Statement, there were \$853,420,000 aggregate principal amount of Bonds Outstanding (as defined herein) under the Resolution, which does not include any of the 2017 Bonds.

The 2017 Bonds will constitute "Bonds" within the meaning of the Resolution. The 2017 Bonds, the Bonds Outstanding on the date of this Official Statement and any additional Bonds (excluding Subordinated Indebtedness) which may be issued in the future under the Resolution are referred to herein collectively as the "Bonds." See "APPENDIX C-1 – COMPOSITE OF THE RESOLUTION." **The 2017B/C Bonds are being sold in a private transaction and are not being offered hereby.**

In addition to its Outstanding Bonds, as of the date of this Official Statement, the City also had outstanding \$50,900,000 in aggregate principal amount of its Utilities System Commercial Paper Notes, Series C (the "Series C CP Notes"). The Series C CP Notes are authorized to be issued in an aggregate principal amount outstanding at any time not to exceed \$85,000,000. 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 the date of this Official Statement, 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.

For a more detailed discussion of the City's outstanding debt, see "OUTSTANDING DEBT" herein. APPENDIX D hereto shows total debt service requirements on all Bonds Outstanding as of the date of this Official Statement and does not include debt service on the CP Notes. The Resolution provides for the issuance of additional Bonds in accordance with the terms of the Resolution. For a discussion of additional Bonds which may be issued in the future, see "APPENDIX C-1 – COMPOSITE OF RESOLUTION – Additional Bonds" and "THE SYSTEM - Additional Financing Requirements" herein.

### **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.

### **Other**

Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Resolution, except as otherwise indicated herein. See "APPENDIX C-1 – Composite of the Resolution – Definitions" and "APPENDIX C-2 – Springing Amendments to the Resolution" attached hereto.

There follows in this Official Statement brief descriptions of the security for the Bonds, the 2017A Bonds, the System, the City, the County, the Resolution and certain financial statements. All descriptions

of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City.

## PURPOSE OF FINANCING

### Plan of Finance

The 2017A Bonds will be issued (i) to finance a portion of the costs of the acquisition by the City of the Gainesville Renewable Energy Center Power Generation Station (the "GREC Biomass Plant") and (ii) to pay costs of issuance of the 2017A Bonds.

Concurrently with the issuance of the 2017A Bonds, the City is separately issuing the 2017B/C Bonds, bearing interest at a monthly rate for monthly rate periods to finance the remaining portion of costs of acquisition of the GREC Biomass Plant. The City expects to enter into a variable-to-fixed interest rate swap agreement with the notional amount of the swap as scheduled to amortize at substantially the same times and in substantially the same amounts as the 2017B Bonds. The counterparties to such swap relating to the 2017B Bonds are expected to be Citibank, N.A. and Goldman Sachs Bank USA. See "THE SYSTEM—Ratings Triggers and Other Factors That Could Affect the System's Liquidity, Results of Operations or Financial Condition—Liquidity Support for the System's Variable Rate Bonds" and "—Interest Rate Swap Transactions" herein for more information. The issuance of the 2017A Bonds is contingent upon the simultaneous issuance of the 2017B/C Bonds as well as contingent upon the closing of the acquisition of the GREC Biomass Plant.

The following table shows the estimated sources and use of funds necessary to accomplish the proposed plan of financing for the acquisition of the GREC Biomass Plant:

#### Sources of Funds:

Principal Amount of the 2017A Bonds	\$415,920,000.00
Principal Amount of the 2017B Bonds	150,000,000.00
Principal Amount of the 2017C Bonds	115,000,000.00
Plus 2017A Bond Premium	<u>73,205,458.35</u>
Total Sources	\$754,125,458.35

#### Use of Funds:

Costs of Acquisition of GREC Biomass Plant	\$750,000,000.00
Costs of Issuance <sup>(1)</sup>	<u>4,125,458.35</u>
Total Uses	\$754,125,458.35

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<sup>(1)</sup> Includes Underwriters' discount, financial advisory, and legal fees and costs, and miscellaneous costs of issuance.

### GREC Biomass Plant

The GREC Biomass Plant is an approximately 102.5 MW net (116 MW gross) wood biomass-fired facility located on property leased from the City by the owner of GREC Biomass Plant, Gainesville Renewable Energy Center, LLC ("GREC LLC"). 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. All of the output of the GREC Biomass Plant is currently sold to GRU pursuant

to a long-term power purchase agreement described below and referred to herein as the "PPA". The GREC 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 GREC Biomass Plant is more particularly described below in "THE SYSTEM – The Electric System – Energy Supply System – Power Purchase Arrangements – Gainesville Renewable Energy Center."

### **GREC Power Purchase Agreement**

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

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

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

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

As described below, GREC LLC and the City are parties to an Asset Purchase Agreement dated as of August 11, 2017 by and between the City and GREC LLC (the "Asset Purchase Agreement"), as more particularly described below under "—Summary of Asset Purchase Agreement", pursuant to which the parties are working to close on the sale of GREC Biomass Plant from GREC LLC to the City. If the sale closes, at closing, GREC LLC's right, title, interest, obligations and responsibilities under the PPA will be assigned to the City and will immediately be unilaterally terminated by the City and the City will own the GREC Biomass Plant.

### **Background of the Acquisition**

In 2006, in anticipation of regulatory challenges and in response to community interest, carbon management became a major consideration in energy supply planning for GRU. GRU, as part of its integrated resource planning and its long-term strategy, began to explore ways to hedge against the potential future carbon tax and cap-and-trade programs. In March 2007, the City Commission reviewed the results of numerous planning studies and public workshops and the results of a series of market

solicitations for additional resources. GRU based on a variety of factors determined that it could best meet a portion of its future electric capacity and energy delivery requirements by entering into a long-term contract for the purchase of power generated from renewable energy sources. To that end, in 2009, the City executed a power purchase agreement (the "PPA"), between the City and GREC LLC which expires in 2043. Pursuant to the terms of the PPA, GREC LLC was to build, own, and operate the GREC Biomass Plant and GRU was to purchase all the available energy, delivered energy and environmental attributes of GREC Biomass Plant. The GREC Biomass Plant began commercial operation on December 17, 2013.

The pricing elements for energy under the PPA fall into two general categories. The fixed component includes a non-fuel energy charge and a fixed operating and maintenance charge that are due to GREC LLC from GRU subject to certain standards of reliability and availability. These fixed, minimum payments are owed by GRU to GREC LLC regardless of whether any power is actually required or taken by GRU. For the fiscal year ended September 30, 2016, the minimum, annual fixed payment by GRU under the PPA was approximately \$73 million (which includes property taxes). Over the remaining term of the PPA, these fixed costs are estimated to be approximately \$1.7 billion over the remaining life of the contract. The second cost category is the variable costs associated with delivering energy from the GREC Biomass Facility, such as fuel and additional operations and maintenance costs.

In recent years, as a result of the reduction 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 GREC Biomass Plant has become less economical. Despite the cost of fuel and operations under current market conditions resulting in the GREC Biomass Plant being more costly to operate than other currently available fuel alternatives, GRU continues to consider the GREC 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. Moreover, GRU has determined that direct ownership of the GREC Biomass Plant and its related assets by GRU would provide significant operational and capital cost savings to its customers, both immediately and over the longer-term. In furtherance of these strategic and operational benefits, the City and GREC LLC have agreed to the acquisition of the GREC Biomass Plant by GRU for a contract price of \$750 million pursuant to the Asset Purchase Agreement, as more particularly described below under "—Summary of Asset Purchase Agreement".

## **Benefits of the Acquisition and Terminating the Power Purchase Agreement**

### *Strategic Advantages*

GRU management believes that the acquisition of the GREC Biomass Plant offers several strategic advantages that are 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);

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\*Preliminary, subject to change.

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 2017 Bonds;
4. The flexibility to operate the GREC Biomass Plant as a strategic reliability hedge, based on the market cost of power, cost of fuel, and operating and maintenance requirements of the GREC 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, described herein under "LITIGATION".

#### Operational Flexibility

GRU management believes that termination of the PPA in connection with the acquisition of the GREC Biomass Plant offers operational flexibility that is in the best financial interests of GRU and its ratepayers, including:

1. GRU will no longer have to coordinate for the planned dispatch of the GREC Biomass Plant as 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 must 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 prevents the use of other GRU generating resources or market purchases that could provide energy at a savings compared to the energy from the GREC Biomass Plant. A smaller blocksize, such as 50 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 cannot schedule any shutdowns during the summer period. As a result, if the GREC Biomass Plant starts the summer season, it must remain "On" for the duration of the summer season. Terminating the PPA eliminates this operational inflexibility and financial burden. Additionally, GRU has the ability to manage the GREC Biomass Plant such that for certain periods of the year, if the GREC Biomass Plant is not expected to be operational, staffing levels can be significantly reduced for a period of time. The current PPA requires a full workforce complement whether the GREC Biomass Plant is operating or in stand-by mode.
4. The GREC 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 manages the fuel procurement process with its staff. GRU believes that these contracts can be better managed with current staff of GRU while eliminating the "margin" that GREC LLC currently applies to fuel procurement. Additionally, the current PPA requires a minimum fuel inventory of 15 days. GRU could manage the fuel inventory more opportunistically.
6. The PPA currently treats the property taxes on the GREC Biomass Plant as a reimbursable expense. Termination of the PPA and GRU's resulting ownership eliminates the direct payment of property taxes.

7. GRU control of the GREC 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.

GRU is still reviewing operational plans for the GREC Biomass Plant's operation, and has not yet decided how the plant will operate in the future.

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In sum, the ownership and operation of the GREC Biomass Plant will provide the City and GRU management with more decision making agility and autonomy to act in the best financial interests of the System and the rate-payers.

### **Impact on Debt Service Coverage**

For information on the effect of the acquisition of the GREC Biomass Plant on projected debt service coverage levels as a result of the issuance of the 2017 Bonds, see "THE SYSTEM – Summary of Combined Net Revenues" herein. Based on historical information, GRU expects an improvement to the fixed charge coverage ratio and a reduction in the debt service coverage metric upon closing this transaction. The capital improvement program for the Electric System currently does not take into account any possible increases in capital program costs resulting from any such purchase. For more information about the capital improvement program for the Electric System, see "THE SYSTEM – The Electric System—Capital Improvement Program" herein.

### **Summary of Asset Purchase Agreement**

*The following is a summary description of certain provisions of the Asset Purchase Agreement. This description has been provided by the City for inclusion in this Official Statement and is not intended to be a full statement of the terms of the Asset Purchase Agreement and accordingly is qualified by reference to the Asset Purchase Agreement, a copy of which is available upon request from the City. See "INTRODUCTORY STATEMENT – General" above. All of the discussion under this caption is qualified by reference to such Asset Purchase Agreement and is subject to the full text of such Agreement. Certain capitalized terms used in this summary have the same meanings assigned to such terms in the Asset Purchase Agreement, except as otherwise indicated herein.*

The Asset Purchase Agreement, between the City and GREC LLC, became effective on August 11, 2017. The Asset Purchase Agreement establishes a contract purchase price of \$750 million for (i) the Purchased Assets (defined in the Asset Purchase Agreement to include spare parts and fuel; assigned contracts (including the Power Purchase Agreement between the parties) listed in the Asset Purchase Agreement ("Assigned Contracts"); certain intellectual property and IT assets; certain owned and leased tangible personal property; governmental approvals; deposits/credits/advance payments; rights under existing transferable warranties and licenses; certain books and records; claims/counterclaims; and goodwill associated with such assets) and (ii) Assumed Liabilities (defined in the Asset Purchase Agreement to include those liabilities and obligations related to the Assigned Contracts; certain Taxes; Permitted Liens; GRU's ownership post-closing; and GRU's Environmental Responsibilities), together with (iii) a fuel price adjustment to be made at closing based on the amount of fuel stock calculated in relation to a specified amount of fuel set forth in the Asset Purchase Agreement (the "Minimum Fuel Requirement").

The purchase does not include (i) Excluded Assets (defined in the Asset Purchase Agreement as accounts and notes receivable prior to closing; cash/bank accounts/securities of GREC LLC; non-Assigned

Contracts; all intellectual property not listed in the Asset Purchase Agreement; documents and records having to do with the legal, organization or financial condition of GREC LLC, or its research and development and legal files; records relating to operations of GREC LLC not listed in the Asset Purchase Agreement; insurance policies of GREC LLC; tax assets of GREC LLC; rights to any actions/suits/claims not listed in the Asset Purchase Agreement; each guaranty, letter of credit, performance or surety bond or similar credit support arrangement issued by or for the account of GREC LLC or any of its affiliates related to Assigned Contracts ("GREC LLC Credit Support"); mobile phones of Project staff; information of GREC LLC related to Excluded Assets subject to legal privilege or confidentiality obligations, or the publication of which is prohibited by law or contractual obligation; computers, email servers, and documents and records that are not necessary for the operation of the Project; and rights of GREC LLC under the Asset Purchase Agreement, the Settlement and Release Agreement, the hereinafter defined Escrow Agreement, and all other agreements between GREC LLC and GRU or their affiliates entered into in order to carry out the Closing Actions (the "Transaction Documents") and (ii) Excluded Liabilities (defined in the Asset Purchase Agreement as trade accounts payable of GREC LLC to third parties post-closing; pre-closing liabilities of Assigned Contracts; any liabilities arising out of the Excluded Assets; Tax liabilities, including recapture of Cash Grant; environmental liabilities of GREC LLC pre-closing; and GRU's responsibilities under pre-existing agreements between GRU and GREC LLC.)

As of the date of the Official Statement, the parties are currently in the Pre-Closing Period (defined in the Asset Purchase Agreement as the time between the Effective Date of the Asset Purchase Agreement and closing or termination of the Asset Purchase Agreement.) Pursuant to the terms of the Asset Purchase Agreement, during the Pre-Closing Period, the arbitration described below under "LITIGATION" remains stayed and the parties covenant to use Commercially Reasonable Efforts to cause certain Conditions Precedent to be satisfied. The Conditions Precedent must be satisfied or waived in order to trigger each party's obligation to close the transaction. The Conditions Precedent are: (a) performing all Closing Actions (delivering documents necessary to transfer assets, paying the purchase price less pay-off of GREC LLC debt and escrow amounts, delivering the Settlement Agreement and General Release as to American Arbitration Association Case No. 01-16-0000-8157 and General Release as to the Power Purchase Agreement (the "Settlement and Release Agreement") that provides for dismissal of the arbitration; assignment of GREC LLC's right, title and interest to, in and under the PPA (including GREC's liabilities and obligations arising under or relating to the PPA) to the City, releasing of GREC LLC Credit Support and delivering the Escrow Agreement that secures certain post-closing obligations of GREC LLC described below); (b) obtaining all governmental approvals, including that GREC LLC must obtain a Section 203 order from the Federal Energy Regulatory Commission ("FERC") authorizing the sale of the GREC Biomass Plant, as it has a value in excess of \$10,000,000; (c) obtaining all third party consents; (d) the absence of any legal order that would prevent the closing; (e) affirming that all representations and warranties remain true and correct; (f) affirming that all Covenants have been performed/complied with; (g) delivering all certificates regarding Closing Actions, representations/warranties and authorization; (h) GREC LLC furnishing a certificate to the effect that it is certain tax withholding is not required upon the disposition of relay property; (i) GREC LLC furnishing certain pay-off letters; (j) GREC LLC delivering its books/records; (k) GREC LLC delivering bonds/escrows securing permitted tax and mechanics liens; and (l) GRU closing the sale of its 2017 Bonds (see "-- Plan of Finance" above) and receiving the funds therefrom in an amount equal to the purchase price. The parties have agreed that on the day GRU executes the bond purchase agreement with the Underwriters, the parties will execute a letter (the form of which has been agreed upon by the parties) establishing a fixed closing date on which both the closing of GRU's financings and the closing of the asset purchase will occur. The letter agreement provides that the parties will exchange all closing instruments two days prior to the fixed closing date and that the obligation to close remains subject to the satisfaction or waiver of the closing conditions, including the conditions precedent.



The Section 203 order from FERC described above was issued on October 13, 2017.

In the event the parties do not close on or before November 24, 2017, either party may terminate the Asset Purchase Agreement. At closing, \$18.75 million of the GREC LLC's proceeds will be placed pursuant to an escrow agreement (the "Escrow Agreement") by and among GRU, GREC LLC, and Wilmington Trust, National Association, as escrow agent (the "Escrow Agent") for a period of 1 year from the date of closing to provide security for GREC LLC's indemnification of GRU for a period of 1 year from the date of closing against losses that arise from the Excluded Liabilities (described above in this Section) and from GREC LLC's Surviving Representations (which are: GREC LLC had the power and authority to consummate the transaction and each document was duly authorized by GREC LLC; consummation of transaction did not violate GREC LLC's charter, contracts or law; there were no pending or threatened legal proceedings (i) challenging the validity of or seeking to enjoin, and which has resulted in any legal requirement, injunction, or order of any nature preventing the consummation of the transaction or (ii) that would have a material adverse change from and after the Effective Date in the Purchase Assets or the ownership or operation of the Project, or on the ability of GREC LLC to perform its obligations under the Transaction Documents (as further defined in the Asset Purchase Agreement, a "Material Adverse Effect"); GREC LLC held good and valid title to the personal property, free of liens; no pending or threatened legal proceedings with respect to the assets that would have a Material Adverse Effect; taxes have/will be filed and paid, no audits will be ongoing, pending or threatened, no liens or rulings will be existing and GRU will not be responsible for recapture liability; GREC LLC's obligations for environmental matters, including investigation or remedial action, all approvals are in full force and effect, no pending claims, not subject to any orders/judgments; and there are no operational defects in the biomass facility that would have a Material Adverse Effect.)

In addition, GRU will indemnify GREC LLC for a period of 1 year from the date of closing against losses that arise from the GRU's Surviving Representations (which are: GRU had the power and authority to consummate the transaction and each Transaction Document was duly authorized by the GRU; consummation of the transaction did not violate the GRU's charter, contracts or law; and there were no pending or threatened legal proceedings (i) challenging the validity of and which has resulted in any legal requirement, injunction, or order of any nature preventing the consummation of the transaction or (ii) that would have a material adverse effect on the ability of GRU to perform its obligations under the Transaction Documents or consummate the transaction contemplated thereby).

*The closing of the acquisition of the GREC Biomass Plant is subject to the satisfaction of a number of conditions precedent that must be met and such purchase, which GRU believes is probable, is not guaranteed to occur. In addition, the Asset Purchase Agreement may be terminated: (a) by mutual written agreement of the parties; (b) by either party, in the event that closing on the acquisition transaction does not occur on or before November 24, 2017; (c) by the City, if 5 days prior to closing the interest rate of 30-year treasury bonds is greater than 3.43%; (d) upon breach by either party and failure to cure; or (e) by either party, in the event of casualty loss or condemnation in excess of \$75,000,000. On October 24, 2017 GREC LLC and GRU executed a letter in which they agreed that, subject to certain conditions precedent as described in the Asset Purchase Agreement, the closing will occur on November 7, 2017. If closing on the acquisition does not occur for any of the foregoing reasons, the 2017 Bonds (see "—Plan of Finance" above) will not be issued.*

*By placing an order with the Underwriters for the purchase of the 2017A Bonds, a purchaser of the 2017A Bonds acknowledges and agrees that the 2017A Bonds will only be issued if all of the conditions*

*precedent in the Asset Purchase Agreement are satisfied or waived and the 2017B Bonds and the 2017C Bonds are issued.*

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Official Statement contains forward-looking statements. Forward-looking statements include, among other things, statements concerning sales, customer growth, economic recovery, current and proposed environmental regulations and related estimated expenditures, access to sources of capital, financing activities, start and completion of construction projects, plans for new generation resources, estimated sales and purchases of power and energy, and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "estimated," "scheduled," "potential," or "continue" or the negative of these terms or other similar terminology. These forward-looking statements are based largely on the City's current expectations and are subject to a number of risks and uncertainties, some of which are beyond the City's control. There are various factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Accordingly, there can be no assurance that such indicated results will be realized. These factors include, but are not limited to:

- 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 products and services of the System, 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 and resource 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 capacity at competitive prices;
- the ability of the System to dispose of surplus 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 including the Appendices attached hereto, such as potential legislation for the creation of a utility authority (see "THE SYSTEM—General – Legislative Matters Affecting the City" and "THE SYSTEM-- Factors Affecting the Utility Industry" herein).

The City expressly disclaims any obligation to update any forward-looking statements. Prospective purchasers of the 2017A Bonds should make a decision to purchase the 2017A Bonds only after reviewing this entire Official Statement (including the Appendices attached hereto) and making an independent evaluation of the information contained herein, including the possible effects of the factors described above.

## OUTSTANDING DEBT

The following table sets forth the outstanding debt of the City issued for the System as of October 1, 2017.

### Outstanding Debt of the City Issued for the System

Description	As of October 1, 2017 (Unaudited)		
	Interest Rates	Due Dates (October 1)	Principal Outstanding
Utilities System Revenue Bonds			
2005 Series A	4.75%	2029 – 2036	\$405,000
2005 Series B (federally taxable)	5.31% <sup>(1)(2)</sup>	2018 – 2021	13,990,000
2005 Series C	Variable <sup>(1)(2)</sup>	2026	26,225,000
2006 Series A	Variable <sup>(1)(2)</sup>	2026	18,410,000
2007 Series A	Variable <sup>(1)(2)</sup>	2036	136,545,000
2008 Series A (federally taxable)	5.27% <sup>(1)(2)</sup>	2018 – 2020	16,475,000
2008 Series B	Variable <sup>(1)(2)</sup>	2038	90,000,000
2009 Series B (federally taxable) <sup>(6)</sup>	4.597 – 5.655%	2018 – 2039	147,905,000
2010 Series A (federally taxable) <sup>(6)</sup>	5.874%	2027 – 2030	12,930,000
2010 Series B (federally taxable) <sup>(6)</sup>	6.024%	2034 – 2040	132,445,000
2010 Series C	5.00 – 5.25%	2018 – 2034	13,025,000
2012 Series A	2.50 – 5.00%	2021 – 2028	81,860,000
2012 Series B	Variable <sup>(3)</sup>	2042	100,470,000
2014 Series A	2.50% – 5.00%	2021 – 2044	37,835,000
2014 Series B	3.125 – 5.00%	2018 – 2036	24,900,000
Total Utilities System Revenue Bonds			\$853,420,000
Utilities System Commercial Paper Notes			
Series C	Variable <sup>(1)(2)</sup>	<sup>(4)</sup>	\$45,000,000
Series D	Variable	<sup>(5)</sup>	8,000,000
Total Subordinated Bonds			\$53,000,000

[Footnotes appear on following page]

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- (1) See Note 9 to the audited financial statements of the System for the fiscal year ending September 30, 2016 included as APPENDIX B-1 to this Official Statement for a discussion of the various risks borne by the City relating to interest rate swap transactions.
  - (2) See "THE SYSTEM - Management's Discussion of System Operations - Ratings Triggers and Other Factors That Could Affect the System's Liquidity, Results of Operations or Financial Condition – Interest Rate Swap Transactions" herein for a discussion of the related interest rate swap.
  - (3) 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 (1) and (2) above.
  - (4) 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, unless such outside maturity date is amended under the Series Bond Resolution.
  - (5) 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, unless such outside maturity date is amended under the Series Bond Resolution.
  - (6) These bonds were issued as "Build America Bonds." The City received subsidy payments equal to a percentage of interest payments from the United States Treasury. No assurance can be provided that the City will continue to receive such subsidy payments or that future legislation, clarification or amendments to the Code will not reduce or eliminate such subsidy payments expected to be received by the City. See APPENDIX C-2 attached hereto for a description of how the Springing Amendments will impact how subsidy payments are treated for purposes of the Resolution.

APPENDIX D attached hereto shows total debt service requirements on all Bonds Outstanding as of October 1, 2016 and does not include debt service on the CP Notes.

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## ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of the proceeds of the 2017A Bonds are estimated to be as follows:

### SOURCES OF FUNDS

Principal Amount of 2017A Bonds	\$415,920,000.00
Plus: Original Issue Premium	<u>73,205,458.35</u>
TOTAL SOURCES	\$489,125,458.35

### USES OF FUNDS

Deposit to Construction Fund for Payment of Portion of Costs of Acquisition of the GREC Biomass Plant <sup>(1)</sup>	\$485,844,845.64
Payment of Costs of Issuance <sup>(2)</sup>	<u>3,280,612.71</u>
TOTAL USES	\$489,125,458.35

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(1) See "PURPOSE OF FINANCING – Plan of Finance" herein. The balance of the \$750 million purchase price for the acquisition will be funded from the proceeds of the 2017B Bonds and the 2017C Bonds as described in "PURPOSE OF FINANCING – Plan of Finance" above.

(2) Includes legal and financial advisory fees, underwriters' discount, printing costs, rating agency fees and other costs of issuance of the 2017A Bonds.

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The following table shows debt service on the 2017A Bonds issued pursuant to the Resolution:

**DEBT SERVICE SCHEDULE FOR 2017A BONDS**

Bond Year Ended <u>October 1</u>	<u>Principal</u>	<u>Interest</u>	Total <u>Debt Service<sup>(1)</sup></u>
2018	\$3,000,000	\$18,135,270.00	\$21,135,270.00
2019	5,000,000	20,000,300.00	25,000,300.00
2020	12,580,000	19,750,300.00	32,330,300.00
2021	13,175,000	19,121,300.00	32,296,300.00
2022	13,770,000	18,462,550.00	32,232,550.00
2023	14,395,000	17,774,050.00	32,169,050.00
2024	15,235,000	17,054,300.00	32,289,300.00
2025	15,750,000	16,292,550.00	32,042,550.00
2026	16,480,000	15,505,050.00	31,985,050.00
2027	17,245,000	14,681,050.00	31,926,050.00
2028	18,230,000	13,818,800.00	32,048,800.00
2029	18,900,000	12,907,300.00	31,807,300.00
2030	19,785,000	11,962,300.00	31,747,300.00
2031	20,715,000	10,973,050.00	31,688,050.00
2032	21,880,000	9,937,300.00	31,817,300.00
2033	22,730,000	8,843,300.00	31,573,300.00
2034	23,810,000	7,706,800.00	31,516,800.00
2035	24,945,000	6,516,300.00	31,461,300.00
2036	26,325,000	5,269,050.00	31,594,050.00
2037	27,400,000	3,952,800.00	31,352,800.00
2038	28,720,000	2,582,800.00	31,302,800.00
2039	29,815,000	1,434,000.00	31,249,000.00
2040	<u>6,035,000</u>	<u>241,400.00</u>	<u>6,276,400.00</u>
Total	\$415,920,000	\$272,921,920.00	\$688,841,920.00

<sup>(1)</sup> See "THE SYSTEM – Summary of Combined Net Revenues" herein for more information about debt service coverage.

See APPENDIX D attached hereto for more information regarding debt service on all Bonds Outstanding following the issuance of the 2017 Bonds.

## SECURITY FOR THE BONDS

### **Pledge Under the Resolution**

All Bonds issued under the Resolution, including the 2017A 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, in each case 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 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 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 BONDS OR THE MAKING OF ANY PAYMENTS UNDER THE RESOLUTION. THE 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 AND PARITY HEDGING CONTRACT OBLIGATIONS ON A PARITY BASIS WITH THE 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.*

#### **Operation and Maintenance of the System**

The City shall at all times use its best efforts to operate or cause to be operated the System properly and in an efficient and economical manner, consistent with Prudent Utility Practice, and shall use its best efforts to maintain, preserve, reconstruct and keep the same or cause the same to be so maintained, preserved, reconstructed and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and condition, and shall from time to time make, or use its best efforts to cause to be made, all necessary and proper repairs, replacements and renewals so that at all times the operation of the System may be properly and advantageously conducted.

## **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.

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 2017 Bonds (including the 2017B Bonds and the 2017C Bonds also) constitutes 44% of principal amount of the Outstanding Bonds, and the City intends to obtain additional consents as additional new money, mandatory tenders upon the expiration of certain liquidity providers and Refunding Bonds are issued. No assurance can be given as to when the Springing Amendments will become effective. For a complete description of such Springing Amendments see "*APPENDIX C-2 – Springing Amendments to the Resolution*" attached hereto.

**By purchasing the 2017A 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.**

**PROSPECTIVE PURCHASERS OF THE 2017A BONDS SHOULD REVIEW THE SPRINGING AMENDMENTS IN "*APPENDIX C-2 – SPRINGING AMENDMENTS TO THE RESOLUTION*" ATTACHED HERETO FOR THE COMPLETE TEXT OF THE ABOVE-REFERENCED AMENDMENTS.**

## THE 2017A BONDS

### General

The 2017A Bonds will be dated the date of delivery thereof, will bear interest from their date of delivery at the rates per annum set forth on the inside cover page of this Official Statement, payable on April 1 and October 1 of each year, commencing April 1, 2018, and will mature on October 1 in the years and in the principal amounts set forth on the inside cover page of this Official Statement. The 2017A Bonds will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof and, when issued, will be initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). See "-- Book-Entry Only System" below.

### Book-Entry Only System

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 2017A BONDS, AS NOMINEE OF DTC, CERTAIN REFERENCES IN THIS OFFICIAL STATEMENT TO THE 2017A BONDHOLDERS OR REGISTERED OWNERS OF THE 2017A BONDS SHALL MEAN CEDE & CO. AND WILL NOT MEAN THE BENEFICIAL OWNERS OF THE 2017A BONDS. THE DESCRIPTION WHICH FOLLOWS OF THE PROCEDURES AND RECORD KEEPING WITH RESPECT TO BENEFICIAL OWNERSHIP INTERESTS IN THE 2017A BONDS, PAYMENT OF INTEREST AND PRINCIPAL ON THE 2017A BONDS TO DIRECT PARTICIPANTS (AS HEREINAFTER DEFINED) OR BENEFICIAL OWNERS OF THE 2017A BONDS, CONFIRMATION AND TRANSFER OF BENEFICIAL OWNERSHIP INTERESTS IN THE 2017A BONDS, AND OTHER RELATED TRANSACTIONS BY AND BETWEEN DTC, THE DIRECT PARTICIPANTS AND BENEFICIAL OWNERS OF THE 2017A 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 2017A Bonds. The 2017A 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 2017A Bonds certificate will be issued for each maturity of the 2017A 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](http://www.dtcc.com).

Purchases of 2017A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2017A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2017A 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 2017A 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 2017A Bonds, except in the event that use of the book-entry system for the 2017A Bonds is discontinued.

To facilitate subsequent transfers, all 2017A 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 2017A 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 2017A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2017A 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 2017A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2017A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of 2017A Bonds may wish to ascertain that the nominee holding the 2017A 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 2017A 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 2017A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal and interest on the 2017A 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 2017A 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 2017A 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, 2017A Bonds certificates will be printed and delivered to DTC.

### **Optional Redemption Provision**

The 2017A Bonds maturing before October 1, 2028 will not be subject to redemption prior to maturity. The 2017A Bonds maturing on and after October 1, 2028 will be subject to redemption prior to maturity at the option of the City on and after October 1, 2027 as a whole or in part at any time, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the date of redemption.

### **Notice of Redemption**

The Trustee shall give notice, in the name of the City, of the redemption of such 2017A Bonds, which notice shall specify the Series and maturities and interest rates within maturities, if any, of the 2017A 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 2017A 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 2017A Bonds so to be redeemed, and, in the case of 2017A 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 2017A Bonds or portions of 2017A 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 2017A 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.

### **Purchase in Lieu of Redemption**

Notwithstanding any provision contained in the Resolution to the contrary, the City shall have the option to cause the 2017A Bonds to be purchased in lieu of redemption on the applicable redemption date at a price equal to the then applicable redemption price, plus accrued interest thereon to, but not including, the date of such purchase. Such option may be exercised by delivery to the Paying Agent (if the Trustee is not the Paying Agent for such 2017A Bonds) on or prior to the Business Day preceding the redemption date of a written notice of the City specifying that the 2017A Bonds shall not be redeemed, but instead shall be subject to purchase pursuant to this paragraph with the moneys provided or to be provided by or on behalf of the City. Upon delivery of such notice, the 2017A Bonds shall not be redeemed but shall instead be subject to mandatory tender at the redemption price on the date that would have been the redemption date.

### **Selection of 2017A Bonds to be Redeemed**

If fewer than all of the 2017A Bonds of like maturity or interest rate within a maturity of any Series shall be called for prior redemption, the particular 2017A Bonds or portions of 2017A 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 2017A Bonds for redemption, the Trustee shall treat each such Bond as representing that number of 2017A 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.

### **Negotiability, Transfer and Registry**

The 2017A Bonds shall be transferable only upon the books of the City, which shall be kept for such purposes at the office of the Bond Registrar, by the Registered Owner thereof in person or by such owner's attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Bond Registrar duly executed by the Registered Owner or such owner's duly authorized attorney. Upon the transfer of any such Bond the City shall issue in the name of the transferee a new 2017 A Bond or 2017A Bonds of the same aggregate principal amount and Series, maturity and interest rate as the surrendered Bond.

The City and each Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the books of the City as the absolute owner of such Bond, whether such 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 Bond and for all other purposes, and all such payments so made to any such Registered Owner or upon such owner's order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the City nor any 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 Resolution, in so treating such Registered Owner.

## **Payment of Interest on 2017A Bonds; Interest Rights Reserved**

Interest on any 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 Bond is registered at the close of business on the date (hereinafter the "Regular Record Date") which, unless otherwise provided in the Supplemental Resolution authorizing such Bond, is the 15th day of the calendar month next preceding such interest payment date.

Any interest on any Bond which is payable, but is not punctually paid or duly provided for, on any interest payment date (hereinafter "Defaulted 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 Interest shall be paid by the City to the persons in whose names the 2017A Bonds are registered at the close of business on a date (hereinafter the "Special Record Date") for the payment of such Defaulted Interest, which shall be fixed in the following manner. The City shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Bond and the date of the proposed payment, and at the same time the City shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee 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 Interest as in provided in the Resolution. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted 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 Trustee of the notice of the proposed payment. The Trustee 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 Interest and the Special Record Date therefor to be mailed, first class postage prepaid, to each Bondholder at such Bondholder's address as it appears in the books of the City kept at the office of the Bond Registrar, not less than 10 days prior to such Special Record Date.

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

## **THE CITY**

### **General**

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

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



**Government**

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

The following are the current members of the City Commission:

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

**THE 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 94,795 customers (10,726 of which were commercial and industrial customers) in the fiscal year ended September 30, 2016, and having a maximum net summer generating capacity of 525 MW.

The natural gas system was acquired from the Gainesville Gas Company in 1990 to provide gas distribution throughout the City. The gas system served an average of 34,496 customers in the fiscal year ended September 30, 2016.

The water and wastewater systems were established in 1891 to provide water and wastewater service to the City. The water and wastewater systems served an average of 71,546 and 64,781 customers, respectively, in the fiscal year ended September 30, 2016. The water system has a nominal capacity of 54 million gallons per day ("Mgd") and the wastewater system has a treatment capacity of 22.4 Mgd annual average daily flow ("AADF").

The telecommunications system, GRUCom, was established in 1995 to provide communication services to the Gainesville area in a manner that would minimize duplication of facilities, maximize interconnectivity, simplify access, and promote the evolution of new technologies and business

opportunities. GRUCom operates a state-of-the-art fiber optic network and current product lines include telecommunications transport services, Internet access services, communication tower antenna space leasing services, and public safety radio services. GRUCom served an average of 6,472 internet access customer connections and 152 dial-up customers in the fiscal year ended September 30, 2016.

#### Utility Advisory Board

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.

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

**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 Causseux & Ellington, Inc. He has held various positions through his years at the System including; Strategic Planning Engineer, Senior Environmental Engineer, Acting Water Distribution and Wastewater Collection Director, and Engineering Director. He holds a Bachelor of Science degree in Engineering from the University of Florida and is a registered Professional Engineer in the State of Florida. Mr. Cunningham is responsible for planning, directing, coordinating and administering all activities and personnel of the Water and Wastewater Department. He directs the design, construction, operation and maintenance of all the water and wastewater systems to deliver safe, reliable, and competitively priced services.

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

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

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

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

high school was with GRU. She later went on to earn her degree in business administration from the University of Florida.

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

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

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

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

#### Labor Relations

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

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

#### Permits, Licenses and Approvals

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

### **The Electric System**

#### Service Area

The System provides retail electric service to customers in the Gainesville urban area, which includes the City and a portion of the surrounding unincorporated area. Wholesale electric services are currently provided to Alachua and the City of Winter Park, Florida ("Winter Park"). See "-- Energy Sales – Retail and Wholesale Energy Sales" below. The electric facilities of the System currently serve approximately 124.5 square miles of the County, and approximately 77% of the population of the County, including the entire City, with the exception of the University of Florida campus, which is served principally by Duke Energy Florida ("Duke"). Electric service is also provided in the unincorporated areas of the County by Duke, Clay Electric Cooperative ("Clay"), Florida Power & Light Company ("FPL"), and Central Florida Electric Cooperative, Inc. The System has a territorial agreement with Clay which establishes a service boundary between the two utilities in the unincorporated areas of the County in order to clearly delineate,

for existing and future service, those areas to be served by the System and those areas to be served by Clay. This agreement has been approved by the Florida Public Service Commission (the "FPSC") through 2017 and is currently in negotiations for further extension.

### Customers

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

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

Of the 94,795 customers in the fiscal year ended September 30, 2016, 10,726 commercial and industrial customers provided approximately 56% of revenues from retail energy sales.

### Energy Sales

#### *The Energy Authority*

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

TEA currently works with over 50 public power clients that represent 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, 2016 and September 30, 2015. The System's aggregate obligation for TEA's natural gas marketing transactions, under similar agreements and executed guaranties as of September 30, 2016 and 2015, was \$13.5 million and \$7.4 million respectively.

For a discussion of the System's investment in TEA and its commitments to TEA as of September 30, 2016 and 2015, see Note 3 to the 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 2017, GRU has realized approximately \$1.8 million in savings as a result of the agreement.

#### Retail and Wholesale Energy Sales

In the fiscal year ended September 30, 2016, the System sold 2,018,118 megawatt hours ("MWh") of electric energy to its retail and firm wholesale customers (excluding interchange and economy sales). The System currently has a firm "all requirements" wholesale sales contract with Alachua. This contract, which originated in 1988, was renewed April 1, 2016 for a term of seven years. "All requirements" services include control area voltage and frequency regulation and all other ancillary services. The following table shows

the System's sales in MWh and average use of electricity, in kilowatt hours ("kWh") by customer class, for the fiscal years ended September 30, 2012 through September 30, 2016. Year-to-year variability is due primarily to the effects of weather on heating and cooling loads. For the fiscal year ended September 30, 2016, there was a 4.3% increase in residential MWh sales from the prior year.

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, 2016, the System sold 133,040 MWh to Alachua and received \$8,632,823 in revenue from those sales, which represented approximately 6.6% of total energy sales (excluding interchange sales) and 3.2% of total sales revenues.

### Retail and Wholesale Energy Sales

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

<sup>(1)</sup> The decrease in Firm Wholesale from 2012 and 2013 is a result of the expiration of the Seminole Electric Cooperative Inc. "all-requirements" contract. Sales to the City of Winter Park began January 2015.

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

### Interchange and Economy Wholesale Sales

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



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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Net Revenues (Loss)	(\$693)	\$123	\$673	\$369	\$126
Percent of Total Electric System Net Revenues	0.0%	0.1%	0.9 %	0.5%	0.2%

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

Interchange and Economy Wholesale Purchases

Interchange and economy wholesale purchases made when power is available from the market at prices below the System's production costs are among the factors that allow the System to assure competitive power costs for retail and firm wholesale customers. Purchases for a duration of less than 24 months are made through TEA. Longer-term contracts are negotiated by the System's staff. The benefits of the System's purchases are passed on to retail and firm wholesale customers by affecting the fuel and purchased power adjustment portion of their rates (see "-- Rates – Electric System" below). In the fiscal year ended September 30, 2016, 21% of power for retail and wholesale sales was obtained through non-firm off-system purchases, allowing customers to benefit from less expensive gas-fired power available for purchase from the market.

Renewable Energy

Since 2006, renewable energy and carbon management strategies became a major component of the System's long-term power supply acquisition program. These renewable resources include 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 also entered into a PPA for the purchase of biomass power generation from the GREC Biomass Plant, as more fully described under "-- Energy Supply System " below. The costs of acquiring these resources are included in the System's fuel and purchased power adjustment clause, resulting in recovery from all customers. The System's renewable energy portfolio is part of a long-term strategy to hedge against potential future carbon tax and trade programs. See "-- Future Power Supply" below for more information on the System's renewable energy resources. See also "-- Factors Affecting the Utility Industry - Air Emissions - *The Clean Air 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 System owns generating facilities having a net summer continuous capability of 520.5 MW. In addition, the System has exclusive rights to the 102.5 MW capacity and energy from GREC LLC. Combined PPA entitlements and System owned generation total 623 MW of net dispatchable summer continuous

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

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

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

Existing Generating Facilities		Fuels		Net Summer Capability (MW)
Plant Name	Unit No.	Primary	Alternative	
<u>JRK Station</u>				
	Steam Unit 8	Waste Heat	—	36
	Combustion Turbine 4	Natural Gas	Distillate Fuel Oil	72
				<u>108</u>
<u>Deerhaven Generating Station</u>				
	Steam Unit 2	Bituminous Coal	—	228
	Steam Unit 1	Natural Gas	Residual Fuel Oil Distillate Fuel	75
	Combustion Turbine 3	Natural Gas	Oil	71
	Combustion Turbine 2	Natural Gas	Distillate Fuel Oil	17.5
	Combustion Turbine 1	Natural Gas	Distillate Fuel Oil	17.5
				<u>409</u>
<u>South Energy Center</u>				
	SEC-1	Natural Gas	—	<u>3.5</u>
<u>Total Owned Resources</u>				
				520.5
<u>Plant Entitlement<sup>(1)</sup></u>				
	GREC	Biomass	—	<u>102.5</u>
<u>Baseline Landfill</u>				
		Landfill Gas	—	<u>3.7</u>
<b>Total Available Capacity</b>				<b>626.7</b>
Total Purchased Power Renewable Resources				106.2

<sup>(1)</sup> Upon acquisition, GREC becomes an owned resource and not a plant entitlement.

**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. The

addition of 102.5 MW of biomass power to the System's generation mix by the PPA with GREC LLC originally resulted in a long range forecast of lower capacity factors for CC1. However, as natural gas prices have generally been lower, CC1 operates more as a baseload unit. That theme was true in fiscal year 2015-16 and continues in fiscal year 2016-17.

*Deerhaven* – The Deerhaven Generating Station ("Deerhaven" or "DGS") is located approximately six miles northwest of the City and encompasses approximately 3,474 acres, which provides room for future expansion as well as a substantial natural buffer. The DGS consists of two steam turbines and three combustion turbines with a cumulative net summer capability of 409 MW. Unit 1 ("DH 1") is a conventional steam unit with a net summer capability of 75 MW. Its primary fuel is natural gas and its emergency backup fuel is #6 oil. DH 1 began commercial operation in 1972 and is expected to be retired in 2022. Unit 2 ("DH 2") is a coal-fired, conventional steam unit with a net summer capability of 228 MW. Two combustion turbines are rated at 17.5 MW each and the third combustion turbine at 71 MW. All three combustion turbines have natural gas as their primary fuel and #2 oil as an alternate fuel.

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

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

To assure reliability, considerable investment continues to be made in both physical components and control systems. In addition, the System has invested in a full scale, high fidelity simulator for operator training and control logic quality control. During fiscal year 2017, the System projects to spend approximately \$1.5 million on decommissioning 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 cost the System approximately \$5.2 million that 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 ("FMPPA") 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.

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

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

The South Energy Center is owned and operated by the System, and provides services under a 50-year "cost plus" contract with UF Health. The medical campus has been master planned for 3,000,000 square feet of facilities at build out, the timing of which is contingent upon future economic conditions. In

August 2013, UF Health advised the System of its commitment to construct an additional hospital tower of similar size next to the existing tower, approximately doubling the loads served by the South Energy Center. The South Energy Center Phase II may also provide services to customers other than UF Health. Construction commenced on the new hospital and the System's infrastructure in late 2014 and completion is expected in December 2017.

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

#### Power Purchase Arrangements

For information about the City's proposed purchase of the GREC Biomass Plant by the City, see "PURPOSE OF FINANCING" herein.

**Gainesville Renewable Energy Center** – The City has a PPA for all the available energy, delivered energy and environmental attributes from GREC LLC, a 102.5 MW biomass fuel generating facility, located on property leased from the City at the DGS site. The fuel supply is primarily forest residuals left in the field after normal timber harvesting as well as materials from urban forestry and suitable sources of clean wood, and biomass such as pallets, and mill residues. Such fuel is in accordance with the strict sustainability standards of the PPA. The GREC Biomass Plant began commercial operation on December 17, 2013 ("COD"). The pricing elements for energy under the PPA include four components: (a) a non-fuel energy charge ("NFEC"); (b) a fixed operating and maintenance charge ("FOM"); (c) the fuel cost; and (d) a variable operating and maintenance charge ("VOM"). The NFEC and FOM charges constitute approximately 65% of the total cost (assuming 90% availability and capacity factors) and are fixed over the term of the PPA. Fuel cost is based on actual costs with gain sharing when the actual cost is lower than target, which it has been since COD. The VOM charge escalates according to a consumer price index. The PPA provides liquidated damages for performance below contractual levels of reliability. If the unit is unavailable, the PPA is constructed such that there will be no cost to the City, other than reimbursement of ad valorem taxes.

The GREC Biomass Plant is a merchant power plant within the City's NERC Balancing Authority. This imposes regulatory responsibilities on both GREC LLC and the System. Pursuant to the rights and obligations of the PPA and regulatory requirements of NERC, the City has sole control of the dispatch of the GREC Biomass Plant. The GREC Biomass Plant is equipped with Best Available Control Technology ("BACT") air emission controls including; dry sorbent injection, selective catalytic reduction of NO<sub>x</sub> and fabric filters for particulate control. The type of fuel to be employed makes it unnecessary to control SO<sub>2</sub> or mercury. The GREC Biomass Plant received its Title V Operating Air Emissions Permit effective January 1, 2015, which must be renewed every five years.

The recent decline in the costs of natural gas and coal have made CC1 and DH 2 more cost beneficial than the GREC Biomass Plant. As such, when the City has the authority under the PPA to do so, the City has directed the GREC Biomass Plant remain in standby and it is anticipated that GRU will continue to do so, unless the GREC Biomass Plant is needed for reasons of System reliability or when System demand and

economics dictate otherwise. Even when the GREC Biomass Plant is in standby, the City pays significant monthly availability charges to GREC LLC. For more information, see "-- SUMMARY OF COMBINED NET REVENUES" below.

Pursuant to the PPA, GREC LLC may not sell the GREC Biomass Plant, either directly or indirectly, through a change of control of GREC LLC during the term of the PPA unless GREC LLC has complied with the following: prior to selling the GREC Biomass Plant, GREC LLC must give notice to the City of GREC LLC's intent to sell the GREC Biomass Plant and the City has 60 days from such notice to prepare an offer (the "First Offer") to purchase the GREC Biomass Plant. GREC LLC must negotiate in good faith exclusively with the City for a minimum of 30 days from receipt of the First Offer to attempt to reach agreement on the terms of a purchase. If the City and GREC LLC cannot reach an agreement on sale terms within the 30 days of receipt of the First Offer, then GREC LLC is provided 360 days from the date of the City delivering the First Offer to close on a sale of the GREC Biomass Plant to an unaffiliated third party for a price and for terms that are no less than the price and no more onerous than the terms of the City's First Offer. GREC LLC has not provided such notice to the City and as disclosed in "PURPOSE OF FINANCING" herein, GREC LLC and the City are parties to the Asset Purchase Agreement pursuant to which the parties are working to close on the sale of the GREC Biomass Plant from GREC LLC to the City. If the sale closes, at closing, GREC LLC's right, title, interest, obligations and responsibilities under the PPA will be assigned to the City and the PPA will immediately be unilaterally terminated by the City and the City will own the GREC Biomass Plant.

***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 2016, net energy for load ("NEL") was served as follows: coal 20.66%; biomass 0.86%; natural gas 54.53%; landfill gas 1.19%; solar 1.14%; oil 0.01%. The remainder of NEL was served by spot purchase power. The System, as both a buyer in the fuel markets and a producer of power, hedges risk and volatility by the use of futures and options. The System's hedging activities are primarily limited to natural gas futures and options. The System's exposure to financial market risk through hedging activity is limited by a written policy and procedure, oversight by a committee of senior division managers, financial control systems, and reporting systems to the General Manager for the System.

***Coal*** – The System currently owns a fleet of 111 aluminum rapid-discharge rail cars that are in continuous operation between the 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 does not currently have an active contract 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 deep mined coal is achieved by doing so, which policy has not had a material impact on the System to date.

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

**Natural Gas** – Natural gas supply for both the electric system and the natural gas distribution system is transported to the System by Florida Gas Transmission ("FGT") under long-term contracts for daily firm pipeline transport capacity. The contracts are priced under transportation tariffs filed with the Federal Energy Regulatory Commission ("FERC"). The System's natural gas supplies are transported from Gulf Coast producing regions in Texas, Louisiana, Mississippi and Alabama. Natural gas volumes greater than the System's firm transportation contract entitlements are supplied either through interruptible transportation capacity or through the use of excess delivered capacity from other suppliers on FGT, as arranged by TEA which has combined purchasing power to ensure capacity. For fiscal year 2016, the System consumed 11,346,889 million British thermal units ("MMBtu") of natural gas in electric generation and 2,060,554 MMBtu for the gas distribution system. The average cost of gas delivered to the System was \$3.14/MMBtu. The System analyzes, investigates, and participates in opportunities to hedge its natural gas requirements as well as provide greater reliability of supply and transportation for customers. These opportunities include pipeline tariff discussions and negotiations, review of potential liquefied natural gas projects and supply offers, review of potential long-term purchases, natural gas supply baseload contracts, and the purchase and sale of financial NYMEX commodity contracts and options. TEA is a market participant that provides comprehensive energy trading, analysis, strategies and recommendations to the System's Risk Oversight Committee ("ROC"). TEA is responsible for the procurement of daily physical volumes and management of pipeline transportation entitlements, as well as the execution of financial hedging transactions on the System's behalf. ROC provides direction and oversight on hedging to TEA. See "Energy Sales – *The Energy Authority*" above.

**Oil** – At current and projected price levels, the System's oil capable units are not projected to operate on fuel oil except in emergency backup modes. For fiscal year 2016, fuel oil accounted for approximately 0.01% of net generation. This level of contribution is not projected to change in the near term. When it does become necessary to replenish inventory for any unit, the System seeks to control the costs by purchasing forward supply at fixed prices and timing market entry points to take advantage of favorable pricing trends.

*GREC Biomass Plant Fuel Supply* – The GREC 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 GREC Biomass Plant's wood fuel is local and is harvested within a 75 mile radius of such Plant in north central Florida. GREC requires approximately one million green tons of fuel annually. Before GREC 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 GREC 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 six-year electric capital improvement program requires approximately \$393 million in capital expenditures between fiscal years ended September 30, 2018 through and including 2022 and does not include the GREC Biomass Plant which become the responsibility of the City after the acquisition. A breakdown of the categories included in the six-year capital improvement program is outlined below and reflects the approved program from the fiscal year 2017 budget process. The South Energy Center expansion at Shands is included in the 2017 budget and is anticipated to cost approximately \$30 million in capital through completion in 2018. See "--Funding the Capital Improvement Program - Additional Financing Requirements" below for more information regarding funding.

**Electric Capital Improvement Program**

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

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Loads and Resources

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

Fiscal Year	Net Summer System Capability (MW) <sup>(1)</sup>	Firm Interchange Sales (MW)	Peak Load (MW) <sup>(2)</sup>	Actual / Projected Planning Reserve Margin	
				MW	Percent
Historical					
2012	662	0	415	247	59%
2013	650	0	416	234	56%
2014	639	0	409	230	56%
2015	639	0	421	218	52%
2016	631	0	428	203	47%
Projected					
2017	627	0	437	190	43%
2018	627	0	444	183	41%
2019	627	0	438	189	43%
2020	627	0	441	186	42%
2021	627	0	445	182	41%

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

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

Mutual Aid Agreement for Extended Generation Outages

The System has entered into a mutual aid agreement for extended generation outages with six other consumer-owned generating utilities in north central Florida and Georgia. Participating with the System in this agreement are FMPA, JEA, Lakeland Electric, Orlando Utilities Commission, the City of Tallahassee, and MEAG Power. Participants have committed to provide replacement power in the event of a long-term (two to twelve month) outage of one of the baseload generating units designated under the agreement. Each utility will provide a pro-rata share of the replacement power and will be reimbursed at an indexed price of coal assuming a heat rate of 11,000 BTU/kWh and an indexed price for gas assuming a heat rate of 9,250 BTU/kWh. The System has designated 100 MW of the capacity of DH 2 and 100 MW of the capacity at JRK Station to be covered under the agreement. The current agreement was renewed for an

additional 5-year term beginning October 1, 2017. To date, the System has provided aid under this agreement, but has never requested aid pursuant to this agreement.

### Future Power Supply

#### General

While the System's existing generating units can maintain a 15% reserve margin through at least 2022, if all generating units are available, the reserve margin can fall from 40+% to a generation deficit with the loss of the System's largest unit, DH 2. As such, power supply planning must address this first contingency event. The reliability of the System's generating sources and the availability of purchased power have been such that the System has never had to declare a generation deficiency. The next scheduled retirement of a generating facility is DH 1 in 2022. Management's strategy to maintain competitive power costs is to maintain the System's status as a self-generating electric utility with a diverse fuel supply that is hedged with a renewable PPA portfolio and meets all environmental standards and expectations of the local community. The ability to be self-generating has proven itself to be a powerful hedge against market volatility while maximizing reliability for native load. Important aspects of this strategy are the management of potentially stranded costs, maintenance of adequate transmission capacity, use of financial as well as physical techniques to hedge fuel costs, and long-term management of pipeline and rail transportation contracts and capacity. Upon the 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. Compliance with some elements of the EPA Clean Power Plan may also impact future power supply planning regarding the System (see "— Factors Affecting the Utility Industry -- Climate Change" below). The year 2020 characterizes a time frame and does not limit considerations of future events.

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

In the fall of 2016, GRU applied for a Point-to-Point Transmission Service Request ("TSR") with Duke Energy Florida ("DEF") and Florida Power & Light ("FPL") with the intent of obtaining worst-case costs and facility upgrades necessary to provide GRU with 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 GREC 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 1,146 miles of water transmission and distribution lines throughout the Gainesville urban area, 16 water supply wells located in a protected well field, and one treatment plant (the "Murphree Plant") possessing a rated peak day capacity of 54 Mgd. Treatment processes include lime-softening, recarbonation, filtration, chlorination and fluoridation. The Murphree Plant's design allows for expansion to at least 60 Mgd of capacity at the plant site without interruption of treatment or service. The System renewed its consumptive use permit ("CUP") in September 2014 which will expire on September 10, 2034. The water system also includes a total of 19.5 million gallons of water storage capacity, comprised of pumped ground storage and elevated tanks.

### Service Area

The water system serves customers within the City limits and in the immediate surrounding unincorporated area. Comprehensive land use plans for the Gainesville urban area mandate connection of new construction to the water system for all but very low density residential developments. Much of the water system's growth is in areas served by Clay for electricity or redevelopment of areas with higher density development. The area presently served includes approximately 118 square miles and approximately 75% of the County's total population. The University of Florida and a small residential development in Alachua are the only wholesale water sales customers.

### Customers

The System has experienced average customer growth of 0.8% per year over the last five years. The System has extension policies and connection fees for providing water supply services to new developments appropriately designed to assure that new customers do not impose rate pressure on existing customers. The following tabulation shows the average number of water customers for the fiscal years ended September 30, 2012 through and including 2016.

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

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

### Water Treatment and Supply

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

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

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

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

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

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

The EPA placed the site on the National Priorities List under the Superfund program in 1984 because of contaminated soil and groundwater resulting from facility operations. The EPA then issued a Record of Decision ("ROD") for the site in 1990 which described the plan for cleaning up the site. Actions were taken in the 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 six-year water capital improvement program requires approximately \$63.3 million in capital expenditures for the fiscal years of September 30, 2017 through and including 2022. A

breakdown of the categories included in the six-year capital improvement program is outlined below and reflects the approved program from the fiscal year 2017 budget process. See "--Funding the Capital Improvement Program - Additional Financing Requirements" below for more information regarding funding.

### Water Capital Improvement Program

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

### The Wastewater System

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

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

#### Service Area

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

#### Customers

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



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

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

In 2011, the System executed an agreement with the City of Waldo, Florida ("Waldo") to provide Waldo with wastewater service on a wholesale basis. Waldo currently provides wastewater service to approximately 850 of its residents. 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 project is scheduled to be completed in or before fiscal year 2021 at an estimated cost of \$3.3 million, and is part of the six-year capital improvements program. The east train is the oldest treatment train at the MSWRF, originally installed in the 1960's. The mechanical components in the east train have signs of deterioration and the aerators are nearly 40 years old. This

rehabilitation project will replace the clarifier mechanism, electrical gears, control panels, PLC, aerators and rehabilitate the concrete basin structure.

Under the FDEP Total Maximum Daily Load ("TMDL") regulations, FDEP assesses the water quality in water bodies and sets requirements for reduction in pollutant sources. FDEP adopted a TMDL in January 2006 which requires reductions in total nitrogen discharges from the MSWRF and other nitrogen sources. Florida's TMDL regulations allow the FDEP to negotiate basin management plans involving all of the parties affecting the water bodies. Subsequent to the adoption of this TMDL, the FDEP promulgated its Numeric Nutrient Criteria ("NNC") Rule effective September 17, 2014. The System will achieve its TMDL limits and comply with the NNC Rule by implementing a cooperative environmental restoration project known as the Paynes Prairie Sheetflow Restoration project. The combination of the project and the reclaimed water distribution (described above) will allow the System to beneficially reuse 100% of the MSWRF effluent.

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

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

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

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

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

### Wastewater Collection

The wastewater gravity collection system consists of 15,309 manholes with 635 miles of gravity sewer, 50% of which consists of vitrified clay pipe. New facilities are primarily constructed of PVC high density polyethylene ("HDPE") pipe. The System maintains three television sealing and inspection units which are routinely employed in inspecting new additions to the System to ensure they meet specifications of the System and in inspecting older lines. The television inspections allow the System to identify segments of piping which have high infiltration and inflow or structural concerns. These pipes are restored through a process known as slip-lining, in which a cured in place fiberglass sleeve is installed in the pipe. The System performs slip-lining using its own crews. In addition, the System routinely utilizes contractors to perform slip-lining of longer segments of piping. As a result 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 168 pump stations and over 142 miles of pipe. Existing lines less than 12 inches in diameter are generally constructed of PVC pipe and existing lines 12 inches in diameter and over are generally constructed of ductile iron pipe. For new construction, force mains 16 inches and smaller are generally constructed of PVC or HDPE. The System has instituted a preventative maintenance program to assure long life and efficiency at all pumping stations.

### Capital Improvement Program

The System's current six-year wastewater capital improvement program requires approximately \$101.7 million in capital expenditures for the fiscal years ending September 30, 2017 through and including 2022. A breakdown of the categories included in the six-year capital improvement program is outlined below and reflects the approved program from the fiscal year 2017 budget process. See "--Funding the Capital Improvement Program - Additional Financing Requirements" below for more information regarding funding.

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

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

### **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, 2012 through and including 2016. Over 90% of new single family developments in the Gainesville urban area have been connected to the System over this period.

	Fiscal Years ended September 30,				
	2012	2013	2014	2015	2016
Customers (Average)	33,264	33,465	33,780	34,152	34,496

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

### Natural Gas Supply

Natural gas is procured and delivered in much the same manner as the System's electric generation operations. TEA purchases the commodity, optimizes pipeline capacity entitlements, and executes physical and financial hedging strategies on behalf of the System as it does for electric operations. The non-coincident occurrences of electric system and gas retail distribution ("LDC") system peak demands provide opportunities to switch electric fuels to free up pipeline capacity for the LDC and/or manage pipeline entitlements to enhance the reliability and cost performance of the gas system. The average cost of gas delivered to the System for the natural gas distribution system in the fiscal year ended September 30, 2016 was \$3.33/MMBtu. Fuel costs for the natural gas system differ from those of the electric system only in that the gas system has no fuel switching capability and must carry sufficient pipeline reserve capacity to meet peak demands, resulting in higher delivered fuel costs.

### Natural Gas Distribution

The natural gas system consists of 783 miles of gas distribution mains. The predominant and standard pipe materials in service are polyethylene (589 miles) and coated steel (190 miles). All coated steel pipelines are cathodically protected using magnesium anodes. The distribution system is comprised of 6.2 miles of uncoated steel and black plastic. The balance of the distribution system is comprised of 6.2 miles 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 2018.

### 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, 2016 and 2015, expenditures which reduced the liability balance were approximately \$1.0 million and \$1.1 million, respectively. The reserve balance at September 30, 2016 and 2015 was approximately \$629,000.

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

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

### Capital Improvement Program

The System's current six-year natural gas capital improvement program requires approximately \$26.2 million in capital expenditures during the fiscal years ended September 30, 2017 through and including 2022. A breakdown of the categories included in the six-year capital improvement program is outlined below and reflects the approved program from the fiscal year 2017 budget process. See "--Funding the Capital Improvement Program - Additional Financing Requirements" below for more information regarding funding.

## Gas Capital Improvement Program

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

### GRUCom

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

#### Service Area

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

#### Services Provided

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

The telecommunications services provided by GRUCom are primarily Private Line and Special Access transport circuits (both described below) delivered in whole, or in part, on the GRUCom fiber optic network. These high bandwidth circuits are capable of carrying voice, data or video communications. Private Line circuits are point-to-point, unswitched channels connecting two or more customer locations with a dedicated communication path. Special Access circuits are also unswitched and provide a dedicated communication path, but these circuits connect a customer location to the Point of Presence of another telecommunications company. GRUCom transport services are provided at various levels ranging from 1.5 megabits per second ("Mbps") to 10 gigabit per second ("Gbps"). Part of GRUCom's business strategy is to use unbundled network elements from the incumbent local exchange carrier, AT&T, in anticipation of fiber extensions to specific service locations. GRUCom also uses the fiber optic network to provide multiple classes of Internet access services. Business Internet and Dedicated Internet Access ("DIA") class service connections are offered at access speeds ranging from 10 Mbps up to 10 Gbps. High speed residential Internet access is offered in participating multi-dwelling communities at speeds up to 1 Gbps under the brand name GATOR NET. In 2017, GRUCom upgraded its GATORNET services to deliver Symmetrical

bandwidth, a first in the Gainesville area. Additionally, GRUCom offers dial-up Internet access services under the brand name GRU.Net. The dial-up access speeds available are 56 kilobits per second ("Kbps"). Additionally, between now and September 30, 2018 GRUCom will be replacing legacy telecommunications equipment with the latest technology equipment to provide enhanced telecommunication services.

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

#### Customers

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

GRUCom's fiber transport customers include other land-line telecommunications companies, cellular telecommunications companies, private commercial and industrial businesses, federal, state and local governmental agencies, public and private schools, public libraries, Santa Fe College, the University of Florida, UF Health and the University of Florida Health Science Center. As of September 30, 2016, GRUCom had a total of 498 transport circuits in service.

Dedicated Internet access services are provided to other Internet service providers, local businesses and organizations, and participating multi-dwelling complexes. Dial-up Internet access services are provided to the general public in the local calling area. As of September 30, 2016, GRUCom had 6,472 Internet access customer connections, while dial-up customers totaled 152. GRUCom tower space leasing services are used primarily by wireless providers, which include cellular telephone and PCS companies. As of September 30, 2016, GRUCom executed 32 tower leases, for space on eleven of its thirteen antenna attachment sites with eight different lessees, including national and regional cellular service providers.

Public safety radio system customers consist solely of government entities due to restrictions on the use of the frequencies allocated to the System under licenses issued by the FCC. The primary radio system users include: the System, the Gainesville Police Department, the Gainesville Fire Rescue Department, the Gainesville Regional Transit System, the City's Public Works Department, the University of Florida Police Department, the Santa Fe College Police Department, the City of Alachua Police Department, the City of High Springs Police Department, the County's Sheriff's Office, the County's Fire Rescue Operations and the County's Public Works Departments. These users have entered into 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. The public safety radio system was designed to accommodate additional participants, and the contract with each participating agency provides incentives to allow the System to expand. Currently, the public safety radio system is in full operation with 2,628 subscriber units in service. Negotiations are underway with the current Radio System Users to provide for upgrading the radio system with technology that will provide for user needs well into the next decade, ongoing negotiations for a system upgrade to the public safety radio system may lead to some capital investment to the System in late 2017 or early 2018.

#### GRUCom Projected Revenue and Customer Count

	2017	2018	2019	2020	2021	2022	2023	2024
Telecom and Data								
Service Sales	\$7,744,161	\$8,276,037	\$8,678,576	\$9,236,042	\$9,910,564	\$10,590,704	\$11,271,774	\$11,971,075
TRS Sales	1,773,462	1,755,042	1,736,814	1,718,776	1,700,924	1,683,258	1,665,776	1,648,475
Tower Leasing Sales	1,730,339	1,740,843	1,783,253	1,826,788	1,871,480	1,917,360	1,964,464	2,012,823
Non-Standard Sales (Non-Recurring)	38,758	35,000	35,000	35,000	35,000	35,000	35,000	35,000
Total Revenue	<u>\$11,286,720</u>	<u>\$11,806,922</u>	<u>\$12,233,643</u>	<u>\$12,816,606</u>	<u>\$13,517,968</u>	<u>\$14,226,322</u>	<u>\$14,937,014</u>	<u>\$15,667,373</u>
Projected Business Customer Count	252	263	277	328	429	528	627	726
Projected Residential Retail Internet Customer Count	176	96	96	96	96	96	96	96

#### Description of Facilities

As of September 30, 2016, GRUCom had 512.5 miles of fiber optic cable installed throughout Gainesville and the County. The fiber strand count included in the cable depends on service requirements for the particular area and ranges from 12 to 144 strands. The fiber is installed in a ringed topology consisting of a backbone loop and several subtending rings. Service is provisioned on the network in two ways: for services requiring transmission through Synchronous Optical Network standard protocol, GRUCom has deployed equipment manufactured by Ciena (primarily); and for services requiring transmission through Ethernet standard protocol, GRUCom uses equipment manufactured by Cisco and Telco System. GRUCom is in the process of retiring the Cisco Systems equipment and migrating all Ethernet to the Telco System's transmission platform. The Telco Systems equipment will enable GRUCom to provide multi-protocol line switching functionality and reduce network infrastructure equipment complexity. The Ethernet protocol provides GRUCom with increased flexibility for managing bandwidth delivered to the customer. The maximum transport speed currently utilized in the fiber optic network is 10 Gbps, which is enough bandwidth to deliver more than 125,000 simultaneous phone calls (as an illustration). Bandwidth on this network is a function of the electronic equipment utilized and, with technologies such as dense wave division multiplexing, expansion of the transport capability of the network is virtually unlimited. To exchange network traffic, GRUCom also is interconnected with other major telecommunications companies serving the Gainesville area.

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

GRUCom maintains a point-of-presence at the Telx Group, Inc. collocation and interconnection facility located in Atlanta, Georgia (the "Telx ATL1 data center"). The Telx ATL1 data center provides access to hundreds of leading domestic and international carriers as well as physical connection points to the world's telecommunications networks and internet backbones. Atlanta, Georgia is a major fiber



interconnection point from Florida to New York and the ATL1 data center sits on top of most of the fiber. GRUCom maintains an ultra-high bandwidth backbone transmission interconnection on diverse routes between Gainesville and the ATL1 data center to provide highly reliable Internet access to customers in Gainesville. GRUCom is also a member of the Telx Internet Exchange ("TIE"), a separate peering point in the ATL1 data center. The TIE allows GRUCom to quickly and easily exchange Internet protocol ("IP") traffic directly with over 60 of the world's largest Internet Service Providers ("ISPs"), Content Providers, Gaming Providers and Enterprises, including companies such as Google, Netflix, Apple, McAfee Akami, Hurricane Electric (a major Internet service), Sprint, Level 3 and several other Internet service providers. TIE participants can route IP traffic efficiently, providing faster, more reliable and lower-latency internet or voice over Internet protocol ("VoIP") access to their customers, by bypassing intermediate router points so that Internet traffic may have direct access to destination networks.

GRUCom maintains a second point-of-presence at the 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 YIE connection in Atlanta.

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

### Capital Improvement Program

The System's current six-year GRUCom capital improvement program requires approximately \$19.5 million in capital expenditures for years ended September 30, 2017 through and including 2022. A breakdown of the categories included in the six-year capital improvement program is outlined below and reflects the approved program from the fiscal year 2017 budget process. See "--Funding the Capital Improvement Program - Additional Financing Requirements" below for more information regarding funding.

### **GRUCom Capital Improvement Program**

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

## Rates

### General

In general, the rates of municipal electric utilities in Florida are established by the governing bodies of such utilities. The governing bodies of municipal water, wastewater and natural gas utilities in Florida have exclusive jurisdiction over the setting of rates for said systems, subject only to certain statutory restrictions upon water and wastewater rates outside the municipal corporate limits. The City Commission's sole authority to set the level of the rates and charges of the System is constrained by the Resolution to set rates that comply with the rate covenant in the Resolution and takes into account recommendations of the Utilities Advisory Board regarding proposed changes in fees, rates, or charges for utility services. See "—Utilities Advisory Board" above and "SECURITY FOR THE BONDS – Rate Covenant" herein. Future projected revenue requirement changes provided in this Official Statement have been developed by the System's staff based on the most recent forecasts and operation projections available. Under Chapter 366, Florida Statutes, the FPSC has jurisdiction over municipal electric utilities only to prescribe uniform systems and classifications of accounts, to require electric power conservation and reliability, to regulate electric impact fees, to establish rules and regulations regarding cogeneration, to approve territorial agreements, to resolve territorial disputes, to prescribe rate structures, to prescribe and enforce safety standards for transmission and distribution facilities and to prescribe and require the periodic filing of reports and other data. Pursuant to the rules of the FPSC, rate structure is defined as ". . . the classification system used in justifying different rates and, more specifically the rate relationship between various customer classes, as well as the rate relationship between members of a customer class." However, the FPSC and the Florida Supreme Court have determined that, except as to rate structure, the FPSC does not have jurisdiction over municipal electric utility rates. The FPSC also has the authority to determine the need for certain new transmission and generation facilities.

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

### Electric System

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

The table below presents electric system base rate revenue requirements, fuel and purchased power adjustment and total residential bill changes since 2012 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<sup>(4)</sup>**

	Percentage Base Rate Revenue Requirements <u>Increase/(Decrease)<sup>(1)</sup></u>	Percentage Fuel and Purchased Power Adjustment <u>Increase/(Decrease)<sup>(2)</sup></u>	Total Residential Bill Percentage <u>Increase/(Decrease)<sup>(3)</sup></u>
Historical (Fiscal Year Beginning):			
October 1, 2012	0.00%	(4.70)%	(1.90)%
October 1, 2013	(5.60)	37.20	9.20
October 1, 2014	(8.50)	17.00	2.70
October 1, 2015	0.00	(6.70)	(5.20) <sup>(3)</sup>
October 1, 2016	0.00	(3.70)	(2.00)
Projected (Fiscal Year Beginning): <sup>(4)</sup>			
October 1, 2017	2.00%	7.10%	0.50%
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

(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) 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. Does not take into account GREC Biomass Plant acquisition.

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 June 30, 2017, was negative \$1,678,145 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 GREC Biomass Plant across a greater number of kWh, lowering the fuel adjustment for all customers. This program is base revenue neutral during the five year discount period, with additional base revenues after the discount ends. The System does not have any customers currently participating in this program.

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

Rates and Charges for Electric Service

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

Residential Standard Rate

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

Non-Residential General Service Non-Demand Rates

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

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

Non-Residential General Service Demand Rates

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

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

Non-Residential Large Power Rates

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

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

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

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Comparison with Other Utilities

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

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

	Residential 1,000 kWh	General Service		
		Non-Demand 1,500 kWh	Demand 30,000 kWh 75 kW	Large Power 430,000 kWh 1,000 kW
<b>Gainesville Regional Utilities</b>	<b>\$131.55</b>	<b>\$239.50</b>	<b>\$4,073.50</b>	<b>\$54,810.00</b>
Kissimmee Utility Authority	\$101.06	\$164.20	\$2,799.49	\$38,395.52
Orlando Utilities Commission	\$106.00	\$165.22	\$2,574.60	\$35,172.40
Lakeland Electric	\$97.27	\$141.99	\$2,315.99	\$32,012.45
Tampa Electric Company	\$108.18	\$169.63	\$2,605.79	\$35,686.07
City of Tallahassee	\$108.88	\$141.54	\$2,675.65	\$36,389.20
JEA	\$108.50	\$155.64	\$2,715.10	\$37,886.50
Ft. Pierce Utilities Authority	\$117.84	\$185.93	\$3,200.85	\$47,797.20
Ocala Electric Authority	\$110.64	\$163.92	\$2,801.51	\$40,264.63
Clay Electric Cooperative, Inc.	\$109.90	\$168.05	\$2,728.25	\$35,806.00
City of Vero Beach	\$116.08	\$181.11	\$3,222.05	\$45,444.30
DukeEnergy Florida	\$121.17	\$185.39	\$2,812.75	\$39,329.77
Florida Power & Light Company	\$106.05	\$158.88	\$2,579.72	\$35,900.50
Gulf Power Company	\$135.83	\$196.26	\$2,951.81	\$41,552.85

<sup>(1)</sup> Rates in effect for June 2017 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. GRU's rates are as of October 2017 and other utility rates are as of June 2017.

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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Water and Wastewater System

The table below presents water system revenue requirements and total residential bill changes since 2012 and Management's most recent projections of future revenue requirements and total bill changes. The percentage increases shown represent the aggregate amount required to fund increases in projected revenue requirements for the water system.

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

	Percentage Revenue Requirement Increase <sup>(1)</sup>	Total Bill Increase <sup>(2)</sup>
Historical		
October 1, 2012	3.50%	4.80%
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
Projected <sup>(3)</sup>		
October 1, 2017	0.00%	0.00%
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

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

<sup>(2)</sup> Based on monthly bill at 7 Kgal.

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

The table below presents wastewater system revenue requirements and total residential bill changes since fiscal year 2012 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**

Historical	Percentage Revenue Requirement Increase <sup>(1)</sup>	Total Bill Increase <sup>(2)</sup>
October 1, 2012	3.00%	4.60%
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
Projected <sup>(3)</sup>		
October 1, 2017	0.00%	0.00%
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

- <sup>(1)</sup> Change in overall revenue requirements collected from all retail customer classes from billing elements, including monthly customer service charges and wastewater usage charges (as a function of water usage). Increases are applied to billing elements to reflect the most recent cost of service study and to yield the overall revenue requirement.
- <sup>(2)</sup> Based on monthly bill at 7 Kgal.
- <sup>(3)</sup> All changes in the System's rates are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

Rates and Charges for Water and Wastewater Services

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

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

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



The University of Florida is charged different rates than other customers because of the City's commitment not to receive General Fund transfers from sales to the University of Florida and because the University of Florida owns and maintains its own on-campus water distribution system. The General Fund transfer policy reflects a historical commitment which enticed the University of Florida to locate in the City of Gainesville in the early 1900's. In October 1999, the University of Florida water rates were indexed to non-residential water rates. Specifically, the off-campus price was established at 89% of the published System price. The on-campus price was 78% of the off-campus price. In 2004, the University of Florida rates became cost-of-service based.

Monthly Service Charges

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

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

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

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

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

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

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

Comparison with Other Cities

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

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

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
<b>Gainesville Regional Utilities</b>	<b>\$30.50</b>	<b>\$53.20</b>	<b>\$83.70</b>
Winter Haven	\$26.72	\$46.27	\$72.99
Orange County	\$16.26	\$41.94	\$58.20
Ocala	\$16.64	\$44.57	\$61.21
Lakeland	\$22.60	\$45.62	\$68.22
Orlando	\$13.71	\$50.37	\$64.08
Tampa	\$21.04	\$44.08	\$65.12
Jacksonville	\$23.37	\$46.33	\$69.70
Pensacola (ECUA)	\$28.18	\$49.86	\$78.04
Tallahassee	\$21.69	\$55.61	\$77.30
St. Augustine	\$35.35	\$45.95	\$81.30
Ft. Pierce	\$38.73	\$53.73	\$92.46
Lake City	\$34.84	\$63.12	\$97.96
Daytona Beach	\$41.95	\$65.04	\$106.99

<sup>(1)</sup> Comparisons are based on 7,000 gallons of metered water and 7,000 gallons of wastewater treated and rates in effect for June 2017. 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 June 2017.

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 2012 and Management's most recent projections of future base rate revenue requirements, purchased gas adjustment and total residential bill changes. The

percentage changes shown represent the aggregate amount required to fund changes in projected non-fuel and purchased gas revenue requirements for the natural gas system.

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

	Percentage Base Rate Revenue Increase/(Decrease) <sup>(1)</sup>	Percentage Purchased Gas Adjustment Revenue Increase/(Decrease) <sup>(2)</sup>	Total Bill Increase/(Decrease) <sup>(3)</sup>
<b>Historical</b>			
October 1, 2012	0.00%	(24.30)%	(9.50)%
October 1, 2013	0.85	0.00	(0.60)
October 1, 2014	4.25 <sup>(4)</sup>	4.10	3.90
October 1, 2015	4.75	(36.40)	8.30
October 1, 2016	9.00	(13.10)	4.40
<b>Projected<sup>(4)</sup></b>			
October 1, 2017	0.00%	37.70% <sup>(5)</sup>	6.60% <sup>(5)</sup>
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

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

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

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

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

<sup>(5)</sup> Includes purchase gas adjustment increase equal to \$0.33 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 June 2017) in the following table. The System's gas rates are among the lowest in the State.

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

	Residential <u>25 therms</u>	General Firm <u>300 therms</u>	Large Volume <u>30,000 therms</u>
<b>Gainesville Regional Utilities</b>	<b>\$32.64</b>	<b>\$262.68</b>	<b>\$17,068.00</b>
Okaloosa Gas District	\$35.59	\$293.16	\$20,886.69
Tallahassee	\$38.24	\$376.74	\$23,732.54
City of Sunrise	\$43.71	\$369.84	\$18,773.72
Pensacola	\$66.95	\$650.72	\$17,435.93
Ft. Pierce	\$47.33	\$334.72	\$23,989.19
Central Florida Gas	\$57.03	\$456.60	\$30,659.40
Kissimmee <sup>(2)</sup>	\$47.66	\$350.53	\$27,938.20
Lakeland <sup>(2)</sup>	\$47.66	\$350.53	\$27,938.20
Orlando <sup>(2)</sup>	\$47.66	\$350.53	\$27,938.20
Tampa <sup>(2)</sup>	\$47.66	\$350.53	\$27,938.20
Clearwater	\$45.25	\$418.00	\$31,450.00

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

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

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

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

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

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

	Based Upon Typical Average Usage by Residential Customers <u>of the System<sup>(2)</sup></u>	Based Upon Standard Industry Usage Benchmarks <sup>(3)</sup>
<b>Gainesville Regional Utilities</b>	<b>\$190.81</b>	<b>\$243.31</b>
Lakeland	\$174.19	\$213.16
Orlando	\$176.90	\$217.74
Tampa	\$171.93	\$220.97
Ocala	\$182.61	\$219.52
Jacksonville	\$184.47	\$225.86
Tallahassee	\$179.02	\$224.43
Clay County	\$186.40	\$224.24
Vero Beach	\$188.66	\$232.07
Kissimmee	\$177.36	\$216.95
Ft. Pierce	\$203.29	\$257.63
Pensacola	\$219.74	\$280.82

<sup>(1)</sup> Based upon rates in effect for June 2017 by the actual providers of the specified services in the indicated locales, applied to the noted billing units. Excludes public utility taxes, sales taxes, surcharges, and franchise fees. GRU rates are as of October 2017.

<sup>(2)</sup> Monthly costs of service have been calculated based upon typical average annual usage by residential customers of the System during the fiscal year ended September 30, 2016, as follows: for electric service: 800 kWh; for natural gas service: 20 therms; for water service: 5,000 gallons of metered water; and for wastewater service: 4,000 gallons of wastewater treated.

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

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

Since the System's rates for electric, water and wastewater service are designed to encourage conservation, average usage of those utility services by residential customers of the System are lower than the standard industry benchmarks for average usage by residential customers that typically are used for



rate comparison purposes. As a result, the total monthly cost of electric, gas, water and wastewater service for residential customers of the System, calculated based upon average usage by such customers, compares favorably to what the total monthly cost of such services would have been, calculated based upon such standard industry benchmarks.

### **Summary of Combined Net Revenues**

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

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Fiscal Years Ended September 30,  
(in thousands)

	2013	2014	2015	2016	Nine Months Ended June 30, 2017 <sup>(4)</sup>
<b>Revenues:</b>					
Electric	\$249,410	\$280,482	\$298,914	\$308,071	\$219,562
Water	32,368	31,827	32,524	33,818	27,830
Wastewater	37,667	36,052	38,261	42,346	33,319
Gas	24,241	25,801	24,111	24,325	18,015
GRUCom	12,206	10,694	12,600	11,744	7,655
Total Revenues	<u>\$355,892</u>	<u>\$384,856</u>	<u>\$406,410</u>	<u>\$420,304</u>	<u>\$306,381</u>
<b>Operation and Maintenance Expenses<sup>(1)</sup>:</b>					
Electric	\$167,524	\$203,506	\$217,082	\$225,290	\$166,815
Water	13,132	13,321	13,559	14,827	10,966
Wastewater	13,584	13,968	14,334	17,388	12,963
Gas	14,779	16,726	15,318	14,577	10,203
GRUCom	5,374	6,492	8,460	7,422	5,157
Total Operation and Maintenance Expenses	<u>\$214,393</u>	<u>\$254,013</u>	<u>\$268,753</u>	<u>\$279,504</u>	<u>\$206,104</u>
<b>Net Revenues:</b>					
Electric	\$81,886	\$76,976	\$81,832	\$82,781	\$52,747
Water	19,236	18,506	18,965	18,991	16,864
Wastewater	24,083	22,084	23,927	24,958	20,356
Gas	9,462	9,075	8,793	9,748	7,812
GRUCom	6,832	4,202	4,140	4,322	2,498
Total Net Revenues	<u>\$141,499</u>	<u>\$130,843</u>	<u>\$137,657</u>	<u>\$140,800</u>	<u>\$100,277</u>
Aggregate Debt Service on Bonds	\$56,101	\$54,860	\$55,461	\$55,822	\$39,588
Debt Service Coverage Ratio for Bonds	2.52	2.39	2.48	2.52	2.53
Debt Service on Subordinated Indebtedness <sup>(2)</sup>	<u>\$11,789</u>	<u>\$5,182</u>	<u>\$6,178</u>	<u>\$6,205</u>	<u>4,842</u>
Total Debt Service on Bonds and Subordinated Indebtedness	\$67,890	\$60,042	\$61,639	\$62,027	\$44,430
Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness <sup>(3)</sup>	2.08 <sup>(3)</sup>	2.18 <sup>(3)</sup>	2.23 <sup>(3)</sup>	2.27 <sup>(3)</sup>	2.26 <sup>(3)</sup>

[Footnotes appear on following page]

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- (1) Includes administrative expenses. Excludes depreciation and amortization.
- (2) Excludes principal of maturing commercial paper notes which were paid from newly-issued commercial paper notes.
- (3) The historical debt service coverage calculation described above is based on the rate covenant described in "SECURITY FOR THE BONDS-Rate Covenant" herein. However, when the 2017 Bonds are issued to finance the costs of acquisition of the GREC Biomass Plant, historical debt service coverage levels shown in the table above would not be indicative of anticipated future debt service coverage levels in effect after such acquisition, in part, because of the new debt which would be 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 2017 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 following the issuance of the 2017 Bonds. For anticipated additional benefits from such acquisition, see "PURPOSE OF FINANCING" herein.
- (4) Unaudited.

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.

### **Summary of Combined Net Revenues Accounting for the 2017 Bonds**

GRU management believes that the acquisition of the GREC Biomass Plant is in the best financial interest of GRU and its ratepayers. The following table illustrates the expected impact to the Debt Service Coverage Ratio, if these impacts were achieved for all twelve months of the fiscal year ended September 30, 2016:

Fiscal Year Ended September 30, 2016  
(in thousands)

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	<u>Actual</u>	<u>Assumes GREC Biomass Plant Acquired on October 1, 2015</u>
Revenues:		
Electric	\$308,071	\$308,071
Water	33,818	33,818
Wastewater	42,346	42,346
Gas	24,325	24,325
GRUCom	<u>11,744</u>	<u>11,744</u>
Total Revenues	\$420,304	\$420,304
Less: Targeted Savings for Ratepayers		<u>27,000</u>
Adjusted Total Revenues Post Acquisition		<u>\$393,304</u>
Operation and Maintenance Expenses <sup>(1)</sup>		
Electric	\$225,290	\$225,290
Water	14,827	14,827
Wastewater	17,388	17,388
Gas	14,577	14,577
GRUCom	<u>7,422</u>	<u>7,422</u>
Total Operation and Maintenance Expenses	\$279,504	\$279,504
Less: Payment to GREC LLC Under PPA		<u>75,000</u>
Adjusted Total Operation and Maintenance Post Acquisition		<u>\$204,504</u>
Net Revenues, Accounting for Acquisition		
Electric	\$82,781	\$130,781
Water	18,991	18,991
Wastewater	24,958	24,958
Gas	9,748	9,748
GRUCom	<u>4,322</u>	<u>4,322</u>
Total Net Revenues	<u>\$140,800</u>	<u>\$188,800</u>
Aggregate Debt Service on Bonds	\$55,822	\$55,822
Debt Service for 2017 Bonds <sup>(1)</sup>		<u>38,055</u>
Adjusted Aggregate Debt Service on Bonds Post Acquisition		\$93,877
Debt Service Coverage Ratio for Bonds	2.52	2.01
Debt Service on Subordinated Indebtedness	<u>6,205</u>	<u>6,205</u>
Total Debt Service on Bonds and Subordinated Indebtedness	<u>\$62,027</u>	<u>\$100,082</u>
Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness <sup>(3)</sup>	2.27	1.89

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<sup>(1)</sup> Estimates on an applicable rate have been used for the 2017B Bonds and 2017C Bonds.

Another financial metric that is frequently used is a fixed charge coverage ratio, which treats certain other contractual obligations as debt. These obligations typically include the fixed payments to the City, the General Fund transfers, as well as fixed payments under a power purchase agreement similar to the PPA. The table below calculates the fixed charge coverage ratio assuming the effects of this transaction were experienced for all twelve months of the fiscal year ended September 30, 2016:

Fixed Charge Coverage Calculation and Impacts

	<u>Actual</u>	<u>Assumes GREC Biomass Plant Acquired on October 1, 2015</u>
Total Net Revenues	\$140,800	\$188,799
General Fund Transfers to City	34,995	34,995
Fixed Payments Under PPA	<u>75,000</u>	<u>0</u>
Total Net Revenues accounting for Fixed Charges	<u>\$180,805</u>	<u>\$153,804</u>
Aggregate Debt Service on Bonds	\$55,822	\$55,822
Debt Service for 2017 Bonds <sup>(1)</sup>	0	38,055
Debt Service on Subordinated Indebtedness	<u>6,205</u>	<u>6,205</u>
Total Debt Service	\$62,027	\$100,082
Fixed Payments Under PPA	<u>75,000</u>	<u>0</u>
Adjusted Annual Net Fixed Payments	<u>\$137,027</u>	<u>\$100,082</u>
Fixed Charge Coverage Ratio	1.32	1.54

<sup>(1)</sup> Estimates on an applicable rate have been used for the 2017B Bonds and 2017C Bonds.

Source: Prepared by the Finance Department of the System.

**Management's Discussion of System Operations**

Results of Operations

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

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

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

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

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

Natural gas fuel cost decreased by approximately \$1.2 million (12%) between the fiscal years ended September 30, 2014 and 2015, and increased by approximately \$410 thousand (4%) between the fiscal years ended September 30, 2015 and 2016. This fluctuation in gas cost is reflective of the natural gas commodity market prices during the same timeframe. Since these costs are passed along to customers as part of the purchased gas adjustment charge each month, any natural gas cost increases or decreases are offset by purchased gas adjustment revenues. The base rate revenue requirement for the natural gas system remained unchanged for the fiscal year ended September 30, 2013, with a nominal increase of 0.85% for the fiscal year ended September 30, 2014. For each of the fiscal years ended September 30, 2015 and 2016, base rate revenue requirements for the gas system were increased by 4.75% and for fiscal year 2017 the base rate revenue requirement was increased by 9.0%. For the fiscal year ended September 30, 2014, the natural gas system withdrew approximately \$1.0 million from the Rate Stabilization Fund. For the fiscal year ended September 30, 2015, the natural gas system deposited approximately \$1.6 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. 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, 2012 and 2016, sales decreased by an average annual rate of 1.9% and customers grew by 0.8%. Revenues from water sales increased by approximately \$3,175,682 for the fiscal year ended September 30, 2012 and 2016. The water revenue increases were primarily the result of rate increases, kept moderate by low customer growth and slow sales growth due to price sensitivity and conservation efforts.

Water base rate revenue requirements were increased by 3.5% in the fiscal year ended September 30, 2013, 3.85% in the fiscal year ended September 30, 2014, 3.75% in each of the fiscal years ended September 30, 2015 and 2016, and for the fiscal year ending September 30, 2017, the base rate revenue requirement was increased by 3.0%. For the fiscal years ended September 30, 2014 and 2015, the water

system contributed approximately \$540,000 and \$2.4 million, respectively, to the Rate Stabilization Fund. For the fiscal year ended September 30, 2016, the water system deposited approximately \$3.3 million to the Rate Stabilization Fund.

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

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

For the fiscal years ended September 30, 2014 and 2015, the wastewater system deposited approximately \$2.1 million and \$2.9 million, respectively, to the Rate Stabilization Fund. The wastewater system deposited approximately \$2.1 million to the Rate Stabilization Fund for the fiscal year ended September 30, 2016. GRUCom's sales have increased from \$10.9 million in fiscal year ended September 30, 2012 to \$11.7 million in fiscal year ended September 30, 2016. This is a 7.27% increase over this 4 year time period. Sales were \$10.7 million, \$11.2 million and \$10.9 million in fiscal years ended September 30, 2013, 2014 and 2015, respectively. For the fiscal year ended September 30, 2014, GRUCom deposited approximately \$570,000 to the Rate Stabilization Fund. GRUCom withdrew approximately \$1.4 million from the Rate Stabilization Fund, for the fiscal year ended September 30, 2015 and for the fiscal year ended September 30, 2016, GRUCom deposited approximately \$7,400 to the Rate Stabilization Fund.

The debt service coverage ratio ("DSCR") is a financial ratio that measures a company's ability to service its current debts by comparing its net operating income with its total debt service obligations. See "SUMMARY OF COMBINED NET REVENUES" above which shows GRU's DSCR for year's fiscal year 2011 through and including fiscal year 2016.

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.

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Liquidity Position

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

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

- (1) Includes 60 days of operating cash. For the Fiscal Year ended September 30, 2016, GRU maintained approximately 238 days of liquidity on hand. Subsequent to the acquisition of the GREC Biomass Plant, GRU expects to have approximately 285 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 GREC 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:

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

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

Source: Prepared by the Finance Department of the System.

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

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

Source: Prepared by the Finance Department of the System.

### Investment Policies

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

### Debt Management Policy

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

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

### Competition

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity Support for the System's Variable Rate Bonds

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

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

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

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

The City anticipates similar provisions to apply to the 2017B Bonds and the 2017C Bonds.

### 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.

### Interest Rate Swap Transactions

The City has entered into interest rate swap transactions with three different counterparties under interest rate swap master agreements with respect to the 2005 Series B Bonds, the 2005 Series C Bonds, the 2006 Series A Bonds, the 2007 Series A Bonds and the 2008 Series B Bonds. The current counterparties are Goldman Sachs Mitsui Marine Derivative Products, L.P. and JP Morgan Chase Bank, National Association.

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 expects to enter into a floating-to-fixed rate interest rate swap transaction (the "2017 Series B Swap Transaction") with respect to the 2017B Bonds. The counterparties are expected to be Citigroup, N.A. and Goldman Sachs Bank USA. The term of the 2017 Series B Swap Transaction is identical to the term of the 2017B Bonds, and the notional amount of the 2017 Series B Swap Transaction will amortize at the same times and in the same amounts as the 2017B Bonds. During the term of the 2017 Series B Swap Transaction, the City will pay to the counterparty or counterparties a fixed rate per annum (which will be determined on or about the date of delivery of the 2017 Bonds) and will receive from the counterparty or



counterparties 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. The parties anticipate entering into a bilateral Credit Support Annex pursuant 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 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.

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 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) will be \$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 six-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 GREC Biomass Plant acquisition described above. Such amount is expected to be funded in part from Revenues and approximately \$175 million of future additional Bonds and/or Subordinated Indebtedness (including additional commercial paper notes) that the City expects will be issued during that timeframe. The following table shows the sources of funding for the fiscal years ending September 30, 2018 through and including 2022:

<b>Source of Funds:</b>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Total</u>
Bond Financing	\$35,000,000	\$35,000,000	\$35,000,000	\$35,000,000	\$35,000,000	\$175,000,000
Revenues	<u>50,000,000</u>	<u>44,000,000</u>	<u>36,000,000</u>	<u>50,000,000</u>	<u>38,000,000</u>	<u>218,000,000</u>
<b>Total Sources</b>	<u>\$85,000,000</u>	<u>\$79,000,000</u>	<u>\$71,000,000</u>	<u>\$85,000,000</u>	<u>\$73,000,000</u>	<u>\$393,000,000</u>

Source: Prepared by the Finance Department of the System.

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

### **Factors Affecting the Utility Industry**

#### General

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

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

## Environmental and Other Natural Resource Regulations

The System and its operations are subject to federal, state and local environmental regulations which include, among other things, control of emissions of particulates, mercury, acid gases, SO<sub>2</sub> and NO<sub>x</sub> into the air; discharges of pollutants, including heat, into surface or ground water; the disposal of wastes and reuse of products generated by wastewater treatment and combustion processes; management of hazardous materials; and the nature of waste materials discharged into the wastewater system's collection facilities. Environmental regulations generally are becoming more numerous and more stringent and, as a result, may substantially increase the costs of the System's services by requiring changes in the operation of existing facilities as well as changes in the location, design, construction and operation of new facilities (including both facilities that are owned and operated by the System as well as facilities that are owned and operated by others, from which the System purchases output, services, commodities and other materials). There is no assurance that the facilities in operation, under construction or contemplated will always remain subject to the regulations currently in effect or will always be in compliance with future regulations. Compliance with applicable regulations could result in increases in the costs of construction and/or operation of affected facilities, including associated costs such as transmission and transportation, as well as limitations on the operation of such facilities. Failure to comply with regulatory requirements could result in reduced operating levels or the complete shutdown of those facilities not in compliance as well as the imposition of civil and criminal penalties.

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

### Air Emissions

#### *The Clean Air Act*

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

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

the ambient air quality impacts of a facility. In 2009, the EPA announced plans to actively pursue new source review enforcement actions against electric utilities for making such changes to their coal-fired power plants without completing new source review. Under Section 114 of the Clean Air Act, the EPA has the authority to request from any person who owns or operates an emission source, information and records about operation, maintenance, emissions, and other data relating to such source for the purpose of developing regulatory programs, determining if a violation occurred (such as the failure to undergo new source review), or carrying out other statutory responsibilities.

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

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

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

On July 28, 2015, the D.C. Circuit ruled that Florida's allowance budget is invalid and remanded CSAPR to the EPA. On October 26, 2016 EPA published, in the *Federal Register* at 81 Fed. Reg. 74504, an update to the CSAPR to address the 2008 Ozone National Ambient Air Quality Standards ("NAAQS"). For three states (North Carolina, South Carolina and Florida), the EPA is removing the states from the CSAPR ozone season NO<sub>x</sub> trading program because modeling for the Final Rule indicates that these states do not contribute significantly to ozone air quality problems in downwind states under the 2008 ozone NAAQS. Therefore, GRU will not have to meet ozone season limits in 2017 and, most likely, 2018.

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

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

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

deadline of April 15, 2016. The EPA also stated that it intended to request that the D.C. Circuit Court remand the rule without vacatur while the EPA works on this revision. Since the D.C. Circuit Court did not vacate the rule, the MATS rule is still in effect.

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

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

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

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

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

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

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

### *Effluent Limitation Guidelines*

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

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

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

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

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

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

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

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

### Regional Haze

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

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

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

### Internal Combustion Engine MACT

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

### Climate Change

On June 25, 2013, President Obama issued a Presidential Memorandum directing the EPA to work expeditiously to complete GHG standards for the power sector. The agency is using its authority under Section 111(d) of the Clean Air Act to issue emission guidelines to address GHG emissions from existing power plants. The Presidential Memorandum specifically directed the EPA to build on state leadership, provide flexibility and take advantage of a wide range of energy sources and technologies towards building a cleaner power sector. It also directed the EPA to issue proposed GHG standards, regulations or guidelines, as appropriate, for existing power plants by no later than June 1, 2014, and issue final standards, regulations or guidelines, as appropriate, by no later than June 1, 2015. In addition, the Presidential



Memorandum directed the EPA to include in the guidelines, addressing existing power plants, a requirement that states submit to the EPA the implementation plans required under Section 111(d) of the Clean Air Act and its implementing regulations by no later than June 30, 2016. States would be able to request more time to submit complete implementation plans with the EPA being able to allow states until June 30, 2017 or June 30, 2018, as appropriate, to submit additional information completing the submitted plan no later than June 30, 2016.

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

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

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

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

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

On October 10, 2017, the EPA Administrator signed a rule proposing the repeal of the CPP.

### Coal Combustion Products

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

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

### Storage Tanks

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

### Remediation Sites

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

In the Site-Wide Monitoring Report dated March 24, 2011, measurable free product was detected in four wells. An inspection in April 2013 showed that groundwater contains four of the polynuclear aromatic hydrocarbons ("PAH") (Benzo[a]anthracene, Benzo[a]pyrene, Benzo[b]fluoranthene, and

Dibenzo[a,h]anthracene) at concentrations greater than their groundwater cleanup target levels ("GCTL"). With the exception of Benzo[a]pyrene, the concentration of the remainder of these parameters did not exceed their Natural Attenuation Default Concentrations. The groundwater quality data reported in the 2011 Site-Wide Groundwater Monitoring Report documents that groundwater quality meets applicable GCTLs at the locations sampled. It is likely that groundwater quality impacts exist in the area where residual number 6 Fuel Oil is present as a non-aqueous phase liquid.

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

#### Water Use Restrictions

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

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

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

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

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

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

#### Manufactured Gas Plant

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

#### Wholesale and Retail Electric Restructuring

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

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

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

Electric utilities registered as a Balancing Authority or Transmission Operator are required to undergo an on-site audit for compliance with the reliability standards once every three years. The System

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

#### FERC Order 779

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

#### FERC Order 1000

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

##### Planning element reforms:

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

##### Cost allocation reforms:

- Each public utility transmission provider must participate in a regional cost sharing allocation method for the selected transmission solution.
- A similar cost allocation is required when neighboring transmission regions select an interregional solution.
- Participant finding is permitted. However, it may not be the regional or interregional allocation schema.

##### Developer reforms:

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

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

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

#### Impact of Hurricane Irma

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

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

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

The extreme rainfall and flooding had the biggest impact to the wastewater system. The flooding resulted in significant inflow of stormwater and floodwaters into the collection system which resulted in comingled wastewater and stormwater overwhelming portions of the collection system. There were numerous locations that the collection system experienced overflows. GRU and private pumpers hauled over 13.8 million gallons of stormwater and wastewater from the collection system to mitigate release impact and help bring the system back to normal operation. During the hurricane and in the following days, it is estimated that approximately 3.5 million gallons of combined stormwater and wastewater were released from the collection system. It is estimated that approximately 80% (or 2.8 mg) of the release was stormwater and 20% (or 0.7 mg) was wastewater. Additionally, GRU lost power to 92 of the 170 wastewater lift stations. However, GRU was able to utilize 41 generators to keep such lift stations operational. GRU restored power to most of the GRU served lift stations by September 12, 2017. There was minimal impact to customers.

GRU coordinated with Alachua County Environmental Protection Department and the Alachua County Department of Health throughout the response and recovery to ensure public health and safety and environmental health. Immediately following the storm, GRU provided an initial notice of wastewater releases to the Florida Department of Environmental Protection ("FDEP") through the State Watch Office

and the FDEP Pollution Public Notification website. Environmental assessment teams were deployed throughout the service area and regular regulatory updates and notification of significant operational changes were provided through email and FDEP Storm Tracker. On September 20, 2017, a final update was provided to all regulatory agencies summarizing environmental assessments and release volumes.

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 EXEMPTION

### General

In the opinion of Bond Counsel, under existing law, interest on the 2017A Bonds is excludable from gross income for federal income tax purposes. The 2017 Bonds (consisting of the 2017A Bonds and the 2017B/C Bonds) will be considered a single issue for federal income tax purposes. Therefore, as described below, actions of the City with respect to any Series of Bonds comprising the 2017 Bonds may adversely affect the exclusion of interest of all Series of Bonds comprising the 2017 Bonds.

The Internal Revenue Code of 1986, as amended (the "Code") and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the 2017 Bonds in order for the interest thereon to be and remain excludable from gross income for federal income tax purposes. Examples include: the requirement that, unless an exception applies, the City rebate certain excess earnings on proceeds and amounts treated as proceeds of the 2017 Bonds to the United States Treasury Department; restrictions on the investment of such proceeds and other amounts; and certain restrictions on the ownership and use of the facilities financed or refinanced with the proceeds of the 2017 Bonds. The foregoing is not intended to be an exhaustive listing of the post-issuance tax compliance requirements of the Code, but is illustrative of the requirements that must be satisfied subsequent to the issuance of the 2017 Bonds to maintain the exclusion of interest on the 2017 Bonds from gross income for federal income tax purposes. Failure to comply with such requirements may cause the inclusion of interest on the 2017 Bonds in the gross income of the holders thereof for federal income tax purposes, retroactive to the date of issuance of the 2017 Bonds. The City has covenanted to comply with each such requirement of the Code that must be satisfied subsequent to the issuance of the 2017 Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The opinion of Bond Counsel is subject to the condition that the City comply with all such requirements. Bond Counsel has not been retained to monitor compliance with the described post-issuance tax requirements subsequent to the issuance of the 2017 Bonds.

Bond Counsel gives no assurance that any future legislation or clarifications or amendments to the Code, if enacted into law or otherwise become effective, will not cause the interest on the 2017A Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent the 2017A Bondholders from realizing the full current benefit of the tax status of the interest on the 2017A Bonds. During recent years, legislative proposals have been introduced in Congress, and in some cases have been enacted, that have altered or could alter certain federal tax consequences of owning obligations similar to the 2017A Bonds. In some cases, these proposals have contained provisions that were to be applied on a retroactive basis. It is possible that legislation could be introduced in the near term that, if enacted, could change the federal tax consequences of owning the 2017A Bonds and, whether or not enacted, could adversely affect their market value. Prospective purchasers of the 2017A Bonds are encouraged to consult their own tax advisors regarding any pending or proposed federal legislation, as to which Bond Counsel expresses no view.

As to certain questions of fact material to the opinion of Bond Counsel, Bond Counsel will rely upon representations and covenants made on behalf of the City and certificates of appropriate officers and



public officials (including certifications as to the use of proceeds of the 2017 Bonds and of the property financed or refinanced thereby).

Reference is made to the proposed form of the opinion of Bond Counsel attached hereto as "APPENDIX E – Form of Opinion of Bond Counsel" for the complete text thereof. See also "LEGAL MATTERS" herein.

### **Alternative Minimum Tax**

An alternative minimum tax is imposed by the Code on both corporations (as defined for federal income tax purposes) and on taxpayers other than corporations. Interest on the 2017A Bonds will not be treated as an item of tax preference for purposes of the alternative minimum tax. Interest on the 2017A Bonds will therefore not be included in the alternative minimum taxable income of corporations or of taxpayers other than corporations. Interest on the 2017A Bonds received by a corporate 2017A Bondholder will, however, be included in such 2017A Bondholder's adjusted current earnings. A corporation's alternative minimum taxable income will be increased by seventy-five percent (75%) of the corporation's adjusted current earnings not otherwise included in its alternative minimum taxable income. The rate of the alternative minimum tax imposed on corporations is twenty percent (20%).

### **Original Issue Premium**

The 2017A Bonds have been sold to the public at an original issue premium. Section 171(a) of the Code provides rules under which a bond premium may be amortized and a deduction allowed for the amount of the amortizable bond premium for a taxable year. Under Section 171(a)(2) of the Code, however, no deduction is allowable for the amortizable bond premium in the case of bonds, like the 2017A Bonds, the interest on which is excludable from gross income. Under Section 1016(a)(5) of the Code, the purchaser's basis in a 2017A Bond will be reduced by the amount of the amortizable bond premium disallowable as a deduction under Section 171(a)(2) of the Code. Proceeds received from the sale, exchange, redemption or payment of a 2017A Bond in excess of the owner's adjusted basis (as reduced pursuant to Section 1016(a)(5) of the Code), will be treated as a gain from the sale or exchange of such 2017A Bond and not as interest.

The federal income tax treatment of original issue premium under the Code, including the determination of the amount of amortizable bond premium that is allocable to each year, is complicated and holders of 2017A Bonds should consult their own tax advisors in order to determine the federal income tax consequences to them of purchasing, holding, selling or surrendering 2017A Bonds at their maturity.

### **Other Tax Consequences**

Prospective purchasers of the 2017A Bonds should be aware that ownership of the 2017A Bonds may result in collateral federal income tax consequences to certain taxpayers, including without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S Corporations with "excess net passive income," foreign corporations subject to the branch profits tax, individuals entitled to receive the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the 2017A Bonds. Prospective purchasers of the 2017A Bonds should also be aware that ownership of the 2017A Bonds may result in adverse tax consequences under the laws of various states. Bond Counsel has not expressed an opinion regarding the collateral federal income tax consequences that may arise with

respect to the 2017A Bonds. Further, Bond Counsel has expressed no opinion regarding the state tax consequences that may arise with respect to the 2017A Bonds. Prospective purchasers of the 2017A Bonds should consult their tax advisors as to the collateral federal income tax and state tax consequences to them of owning the 2017A Bonds.

The federal income tax consequences from the purchase, ownership and redemption, sale or other disposition of 2017A Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. Holders of 2017A Bonds, should consult their own tax advisors with respect to the consequences of owning 2017A Bonds, including the effect of such ownership under applicable state and local laws.

### **Information Reporting and Backup Withholding**

Interest paid on tax-exempt bonds, such as the 2017A Bonds, is subject to information reporting to the Internal Revenue Service in a manner similar to interest paid on taxable obligations. This reporting requirement does not affect the excludability of interest on the 2017A Bonds from gross income for federal income tax purposes. However, in conjunction with that information reporting requirement, the Code subjects certain non-corporate owners of 2017A Bonds, under certain circumstances, to "backup withholding" at the fourth lowest rate applicable to unmarried individuals with respect to payments on the 2017A Bonds and proceeds from the sale of 2017A Bonds. Any amounts so withheld would be refunded or allowed as a credit against the federal income tax of such owner of 2017A Bonds. This withholding generally applies if the owner of 2017A Bonds (i) fails to furnish the paying agent (or other person who would otherwise be required to withhold tax from such payments) such owner's social security number or other taxpayer identification number ("TIN"), (ii) furnishes the paying agent an incorrect TIN, (iii) fails to properly report interest, dividends, or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the paying agent or such owner's securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such owner is not subject to backup withholding. Prospective purchasers of the 2017A Bonds may also wish to consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding and the procedures for obtaining exemptions.

PURCHASE, OWNERSHIP, SALE OR DISPOSITION OF THE 2017A BONDS AND THE RECEIPT OR ACCRUAL OF THE INTEREST THEREON MAY HAVE ADVERSE FEDERAL TAX CONSEQUENCES FOR CERTAIN INDIVIDUAL AND CORPORATE 2017A BONDHOLDERS, INCLUDING, BUT NOT LIMITED TO, THE CONSEQUENCES DESCRIBED ABOVE. PROSPECTIVE 2017 A BONDHOLDERS SHOULD CONSULT WITH THEIR TAX SPECIALISTS FOR INFORMATION IN THAT REGARD.

Reference is made to the proposed form of the opinion of Bond Counsel attached hereto as "APPENDIX E – Form of Opinion of Bond Counsel" for the complete text thereof. See also "LEGAL MATTERS" herein.

### **UNDERWRITING**

Goldman Sachs & Co. LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated (collectively, "Co-Senior Managers") on behalf of themselves and Barclays Capital Inc., Wells Fargo Bank, National Association, Citigroup Global Markets Inc. and Ramirez & Co., Inc. (collectively, the "Underwriters") are purchasing the 2017A Bonds from the City at a price of \$487,101,789.99 (which represents the \$415,920,000.00 aggregate principal amount of the 2017A Bonds, plus an original issue premium of

\$73,205,458.35 and less an underwriters' discount of \$2,023,668.36). The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all the 2017A Bonds if any 2017A Bonds are purchased. The Underwriters have furnished the information on the inside cover page of this Official Statement pertaining to the offering prices of the 2017A Bonds. The 2017A Bonds may be offered and sold to certain dealers (including the Underwriters and other dealers depositing such 2017A Bonds into investment trusts) at prices lower than such public offering prices, and such public offering prices may be changed from time to time, by the Underwriters. The obligation of the Underwriters to purchase the 2017A Bonds is contingent upon the simultaneous closing of the other 2017 Bonds and the simultaneous acquisition of the GREC Biomass Plant.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, N.A. Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), one of the underwriters of the 2017A Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the 2017A Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the 2017A Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the 2017A Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

Upon closing of the 2017A Bonds, Wells Fargo Bank, National Association will purchase, pursuant to a private placement, the City's 2017B Bonds and will receive certain compensation in connection with such purchase.

Upon closing of the 2017A Bonds, Bank of America, N.A., an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated, will purchase, pursuant to a private placement, the City's 2017C Bonds and will receive certain compensation in connection with such purchase.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the City and to persons and entities with relationships with the City, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other

financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the City (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the City. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments

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

### CONTINUING DISCLOSURE

The City has covenanted for the benefit of the 2017A Bondholders to provide certain financial information and operating data relating to the City and the 2017A Bonds in each year, and to provide notices of the occurrence of certain enumerated material events. The City has agreed to file annual financial information and operating data and the audited financial statements with each entity authorized and approved by the SEC to act as a repository (each a "Repository") for purposes of complying with the Rule either itself or through its dissemination agent. Effective July 1, 2009, the sole Repository is the Municipal Securities Rulemaking Board. The City has agreed to file notices of certain enumerated events, when and if they occur, with the Repository either itself or through its dissemination agent.

The specific nature of the financial information, operating data, and of the type of events which trigger a disclosure obligation, and other details of the undertaking are described in "APPENDIX F - Form of Continuing Disclosure Certificate" attached hereto. The Continuing Disclosure Certificate shall be executed by the City upon the issuance of the 2017A Bonds. These covenants have been made in order to assist the Underwriters in complying with the continuing disclosure requirements of the Rule.

With respect to the 2017A Bonds, no party other than the City is obligated to provide, nor is expected to provide, any continuing disclosure information with respect to the Rule. The City: (i) did not timely file its audited financial statements and notices of failure to file related thereto for Fiscal Years 2015 and 2016 with respect to its then outstanding loan from the proceeds of the then outstanding First Florida Governmental Financing Commission Revenue Bonds; (ii) did not timely file its audited financial statements and operating data and notices of failure to file related thereto for Fiscal Year 2015 with respect to certain of its Outstanding Utilities System Revenue Bonds; (iii) failed to file certain operating data and notice of failure to file related thereto for Fiscal Years 2015 and 2016 with respect to certain of its Outstanding Utilities System Revenue Bonds; and (iv) failed to file certain notices of defeasance and bond calls which occurred in Fiscal Years 2015 and 2016 with respect to certain of its Utilities System Revenue Bonds and its then outstanding loan from the proceeds of the then outstanding First Florida Governmental Financing Commission Revenue Bonds. In the past five years, except as described above, the City has never failed in any material respect to comply with any prior agreements to provide continuing disclosure information pursuant to the Rule. However, the City (i) filed certain operating data in a different format than required, failed to file certain operating data for Fiscal Years 2013, 2015 and 2016 and a failure to file notice related thereto with respect to certain of its outstanding Utilities System Revenue Bonds; (ii) failed to link certain operating data for Fiscal Years 2012 and 2014 with respect to certain of its Outstanding

Utilities System Revenue Bonds; (iii) failed to file certain notices of defeasance and bond calls occurred in Fiscal Year 2012 with respect to with respect to certain of its Outstanding Utilities System Revenue Bonds, and (iv) did not timely filed certain operating data for Fiscal Years 2012 and 2013 with respect to its outstanding Guaranteed Entitlement Revenue Refunding Bonds, Series 2004. All such required information has been filed as of this date. The City fully anticipates satisfying all future disclosure obligations required pursuant to the Rule. While the City does not believe that such failures constitute material failures to comply with any prior agreements to provide continuing disclosure information pursuant to the Rule, in order to demonstrate its continued commitment to continuing disclosure best practices, the City has included notice of this non-material instance of non-compliance in the interest of being fully transparent. The City has entered into a contract with Digital Assurance Certification, LLC to provide continuing disclosure dissemination agent services for all of its outstanding bond issues.

### **ENFORCEABILITY OF REMEDIES**

The remedies available to the owners of the 2017A Bonds upon an event of default under the Resolution are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically the federal bankruptcy code, the remedies specified by the Resolution and the 2017 Series A may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the 2017 Series A, including Bond Counsel's approving opinion, will be qualified, as to the enforceability of the remedies provided in the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors enacted before or after such delivery. See "APPENDIX C-1 – Composite of the Resolution" attached hereto for a description of events of default and remedies.

### **RATINGS**

S&P, Moody's and Fitch have assigned ratings of "AA-" (stable outlook), "Aa3" (stable outlook) and "AA-" (stable outlook), respectively, to the 2017A Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same. Generally, a rating agency bases its ratings on information and material so furnished and on investigations, studies and assumptions made by the rating agency. The City furnished such ratings agencies with certain information and materials relating to the 2017A Bonds that have not been included in this Official Statement. The rating is not a recommendation to buy, sell or hold the 2017A Bonds. There is no assurance that the ratings will be in effect for any given period of time or that they will not be revised downward, suspended or withdrawn entirely by S&P, Moody's and Fitch or either of them if in their, or its judgment, circumstances so warrant. The City does not undertake any responsibility to bring to the attention of the owners of the 2017A Bonds any proposed revision or withdrawal of a rating of the 2017A Bonds, or to oppose any such downward revision or withdrawal. Any such downward revision, suspension or withdrawal of the ratings given the 2017A Bonds may have an adverse effect on the liquidity or market price of the 2017A Bonds. An explanation of the significance of the ratings can be received from the rating agencies, 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, 250 Greenwich Street, New York, New York 10007 and Fitch Ratings, Inc., One State Street Plaza, New York, New York 10004.

## LITIGATION

Except as described below, there is no litigation or other proceeding pending or, to the knowledge of the City, threatened in any court, agency or other administrative body (either state or federal) in any way questioning or affecting (i) the proceedings under which the 2017A Bonds will be issued, (ii) the validity of any provision of the 2017A Bonds or the Resolution, (iii) the pledge by the City under the Resolution, (iv) the legal existence of the City or (v) the authority of the City to own and operate the System and to set utility rates.

Following is a description of certain current adversarial proceedings regarding the City and the System. Such adversarial proceedings relate to ongoing binding arbitration between GREC LLC and the City relating to the PPA. For more information, see "PURPOSE OF FINANCING" herein. Such described adversarial proceedings are not expected to adversely affect the City's ability to pay debt service on the 2017A Bonds, or to otherwise comply with any of its obligations under the Resolution, including the rate covenants. That is because, as described in more detail below, the binding arbitration will be resolved simultaneous with the delivery of the 2017 Bonds.

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

In addition, GREC LLC has alleged claims in contract and tort that it asserts could result in aggregate damages to GREC LLC of over \$100,000,000. These claims are GREC LLC's Counts 2, 3 and 4 summarized below. Likewise, GRU has alleged claims in contract that could result in aggregate damages to GRU of over \$100,000,000. These claims are GRU Counts 4 and 5 summarized below. At this stage in the proceedings, neither party has substantiated the dollar value of these additional claims to the tribunal, and it is not possible for GRU to predict the outcome of these claims. However, the arbitration is currently stayed pursuant to the terms of the Asset Purchase Agreement. The Asset Purchase Agreement sets forth the terms pursuant to which the parties are working to close on a purchase by the City of the GREC Biomass Plant. In the event the parties close on the purchase, the Asset Purchase Agreement (and Settlement and Release Agreement provided for therein) provides that the City will retain the withheld amount of \$7,428,899.98 and the parties will file a motion to dismiss the arbitration.

In the event the parties do not close on the purchase on or before November 24, 2017, the stay will be lifted and the arbitration will proceed. Pursuant to the PPA, the decision of the arbitrator will be final and binding on the parties. If the arbitration proceeds, GRU will vigorously defend against the GREC LLC Counts in arbitration and believes that (i) some or all of any damages resulting from the GREC LLC Counts constituting tort claims would be subject to sovereign immunity claims processes and statutory caps, (ii) some or all of any damages resulting from the tort claims may be covered by liability insurance of the City. The following is a summary of the claims in the arbitration:

GREC LLC's Count 1: GREC LLC alleges that GRU has breached the PPA by: (1) trying to force GREC LLC to take a Planned Maintenance (as defined in the PPA) outage in April 2016; (2) refusing to recognize a letter GREC LLC sent on October 14, 2015, as the contractually required "written annual maintenance plan" in which GREC LLC cancelled

the maintenance outage in April of 2016; (3) refusing to recognize GREC LLC's alleged contractual right to determine whether and when to take a maintenance outage; (4) asserting that it would consider GREC LLC in an outage during the agreed period and would not make Available Energy (as defined in the PPA) payments regardless of whether GREC LLC actually took an outage; and (5) not making Available Energy payments to GREC LLC for the 21-day period between April 9, 2016 and April 29, 2016.

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

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

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

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

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

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

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

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

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

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

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

Upon closing pursuant to the Asset Purchase Agreement, the Settlement and Release Agreement provides that all arbitration claims of one party against the other will be dismissed with prejudice each side bearing its own attorney's fees and costs, and each party will release all current claims, liabilities and obligations (contingent or otherwise) against the other assuming from, out of or under the PPA.

In addition to the action described above, the City is also party to various federal, state and local claims, proceedings and lawsuits for damages claimed to result from the operation of the City and the System. Except as described above, neither the City Attorney nor the Utilities Attorney 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 Bonds.

## LEGAL MATTERS

Certain legal matters incident to the issuance of the 2017A Bonds are subject to the legal opinion of Holland & Knight LLP, Lakeland, Florida, as Bond Counsel, a form of which is attached to this Official Statement as APPENDIX E. The signed legal opinion dated and premised on law in effect as of the date of original delivery of the 2017A Bonds, will be delivered to the Underwriters at the time of original delivery. Certain legal matters are also being passed upon for the City by Nicolle M. Shalley, Esq., City Attorney, Bryant Miller Olive P.A., Tampa, Florida, as Disclosure Counsel to the City, and Nixon Peabody LLP, New York, New York, as counsel to the Underwriters.

Holland & Knight LLP, Bond Counsel, has not undertaken independently to verify and therefore expresses no opinion with respect to the information or statements contained herein or in the Appendices attached hereto, except as to the accuracy of the portions thereof captioned "SECURITY FOR THE BONDS" and "THE 2017A BONDS" and the summaries of the Amended and Restated Bond Resolution and the



Springing Amendments thereto contained in Appendices C-1 and C-2 to the extent those sections purport to summarize certain provisions of the Resolution, and except as to the accuracy of the information under the caption "TAX EXEMPTION." No opinion is expressed by Bond Counsel as to any financial or statistical data or information included in such sections.

The proposed text of the legal opinion of Bond Counsel is set forth in APPENDIX E. The actual legal opinion to be delivered may vary from that text if necessary to reflect facts and law on the date of delivery. The opinion will speak only as of its date and subsequent distribution of it by recirculation of the Official Statement or otherwise shall create no implication that subsequent to the date of the opinion, Bond Counsel has reviewed or expresses any opinion concerning any of the matters referenced in the opinion. Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances, including changes in law, which may thereafter occur or become effective.

The legal opinions delivered in connection with the 2017A 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.

#### **CONTINGENT FEES**

The City has retained Bond Counsel, the Financial Advisor and Disclosure Counsel with respect to the authorization, sale, execution and delivery of the 2017A Bonds. Payment of the fees of such professionals and an underwriting discount to the Underwriters (which includes the fees of Underwriters' Counsel) are each contingent upon the issuance of the 2017A Bonds.

#### **FINANCIAL STATEMENTS**

The audited financial statements of the System as of September 30, 2016 and for the year then ended, included in APPENDIX B-1 attached to this Official Statement 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 Official Statement or the issuance of the 2017A Bonds.

The 2017A 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 BONDS" herein. The audited financial statements are presented for general information purposes only and speak only as of their date.

Unaudited financial statements relating to the System for the nine-month period ending June 30, 2017, not including any footnotes, are attached hereto as APPENDIX B-2.

#### **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 Official Statement.

#### **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 2017A Bonds because the City would not have been obligated to pay the debt service on any such securities except from payments made to it by the private companies on whose behalf such securities were issued and no funds of the City would have been pledged or used to pay such securities or the interest thereon.

#### **ACCURACY AND COMPLETENESS OF OFFICIAL STATEMENT**

The references, excerpts, and summaries of all documents, statutes, and information concerning the City and certain reports and statistical data referred to herein do not purport to be complete, comprehensive and definitive and each such summary and reference is qualified in its entirety by reference to each such document for full and complete statements of all matters of fact relating to the 2017A Bonds, the security for the payment of the 2017A Bonds and the rights and obligations of the owners thereof and to each such statute, report or instrument.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Neither this Official Statement nor any statement that may have been made verbally or in writing is to be construed as a contract with the owners of the 2017A Bonds.

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

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## AUTHORIZATION OF OFFICIAL STATEMENT

The execution and delivery of this Official Statement has been duly authorized and approved by the City. At the time of delivery of the 2017A Bonds, the City will furnish a certificate to the effect that nothing has come to its attention which would lead it to believe that the Official Statement (other than information herein related to DTC and its book-entry only system of registration, information provided by the Underwriters under the caption "UNDERWRITING" and the information contained under the caption "TAX EXEMPTION" as to which no view shall be expressed), as of its date and as of the date of delivery of the 2017A Bonds, contains an untrue statement of a material fact or omits to state a material fact which should be included therein for the purposes for which the Official Statement is intended to be used, or which is necessary to make the statements contained therein, in the light of the circumstances under which they were made, not misleading.

CITY OF GAINESVILLE, FLORIDA

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

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**APPENDIX A**

**GENERAL INFORMATION REGARDING THE CITY**

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## APPENDIX A

### GENERAL INFORMATION REGARDING THE CITY

#### General

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

#### Organization and Administration

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

The following are the current members of the City Commission:

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

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

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

Internal support services include the following: accounting and reporting, accounts payable and payroll, billing and collections, budgeting and budget monitoring, cash management, City-wide

management, computer systems support, debt management, equal opportunity, fleet maintenance, facilities maintenance, human resources, information systems, investment management, labor relations, mail services, pension administration, property control, purchasing, risk management and strategic planning. In addition to these activities, the City exercises oversight responsibility for the Community Redevelopment Agency and the Gainesville Enterprise Zone Development Agency.

**Population**

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

**POPULATION GROWTH**

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

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

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

**Employment**

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

**EMPLOYMENT**

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

Source: Florida Research and Economic Information Database Application.



**TEN LARGEST EMPLOYERS  
(SEPTEMBER 30, 2016)**

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

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Source: Finance Department, City of Gainesville, Florida.

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**Property Tax Data**

The following data is provided for information and analytical purposes only. The Series 2017A Bonds are not secured by ad valorem tax revenues of the City.

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

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

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

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

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

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

(1) Tax roll year as of January 1.

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

(3) Sum of real and personal property value.

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

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

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

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

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

Source: Finance Department, City of Gainesville, Florida.

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

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

Source: Finance Department, City of Gainesville, Florida.

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

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

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

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

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

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

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

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

Source: Finance Department, City of Gainesville, Florida.

**OVERLAPPING SELF SUPPORTING AND  
NON-SELF SUPPORTING DEBT  
AS OF SEPTEMBER 30, 2016**

<u>Taxing Authority</u>	<u>Self Supporting</u>	<u>Non-Self Supporting</u>	<u>Totals</u>
Alachua County <sup>(1)</sup>		\$51,994,000	51,994,000
Alachua County Schools		62,742,864	62,742,864
Alachua County Library District <sup>(1)</sup>		1,040,000	1,040,000
City of Gainesville:			
Utilities	\$948,575,000	0	948,575,000
Other than Utilities	1,550,972	134,810,854	136,361,826

<sup>(1)</sup> Fiscal year ended September 30, 2016 data not yet available for the County and the County Library District; amounts shown are as of September 30, 2015 for those two entities.

Source: Finance Department, City of Gainesville, Florida.

**DEBT SUMMARY<sup>(1)</sup>  
AS OF SEPTEMBER 30, 2016**

	<u>Gross</u>	<u>Net</u>
General Obligation Debt	\$0	\$0
Debt Payable from Non-Ad Valorem Revenues <sup>(2)</sup>	134,810,854	134,810,854
General Obligation Overlapping Debt <sup>(3)</sup>	<u>248,905</u>	<u>248,905</u>
Total	<u>\$135,059,759</u>	<u>\$135,059,759</u>
 Maximum Annual Debt Service on Debt Payable from Non-Ad Valorem Revenues after 10/01/2016		 \$15,005,625

<sup>(1)</sup> This includes only City general government debt. The City d/b/a GRU and other self-liquidating debt are not included.

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

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

Source: Finance Department, City of Gainesville, Florida.

## PRINCIPAL TAXPAYERS

### Tax Roll Year 2015

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

Source: Finance Department, City of Gainesville, Florida.

## LIABILITIES OF THE CITY

### Insurance Considerations Affecting the City

#### General

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

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

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

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

All funds other than the System enterprise fund (the "Utility Fund") participate in the general insurance program. Risk management/insurance related activities of the Utility Fund are accounted for within the Utility Fund. The Utility Fund purchase plant and machinery insurance from a commercial carrier. An actuarial study completed during fiscal year 2008 resulted in an increase to a balance of \$3.3 million. The present value calculation assumes a rate of return of 4.5% with a confidence level of 75%. This reserve is recorded as a fully amortized deferred credit. All claims for fiscal year 2015-16 and 2014-15 were paid from current year's revenues. Changes in the insurance reserve for fiscal years 2015-16 and 2014-15 were as follows:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Incurred</u>	<u>Payments</u>	<u>End of Fiscal Year Liability</u>
2015-2016	\$3,337,000	\$1,178,000	\$1,178,000	\$3,337,000
2014-2015	3,337,000	1,957,000	1,957,000	3,337,000

There is a claims liability of \$6,854,000 included in the General Insurance Fund as the result of actuarial estimates. Changes in the General Insurance Fund's claims liability for fiscal years 2014-15 and 2015-16 were as follows:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Incurred</u>	<u>Payments</u>	<u>End of Fiscal Year Liability</u>
2015-2016	\$6,854,000	\$2,280,237	\$2,280,237	\$6,854,000
2014-2015	6,854,000	2,852,652	2,852,652	6,854,000

Health Insurance

The City also currently is self-insured for its Employee Health and Accident Benefit Plan (the "Plan"). The Plan is accounted for in an internal service fund and is externally administered, for an annually contracted amount which is based upon the volume of claims processed. Contributions for City employees and their dependents are shared by the City and the employee. Administrative fees are paid primarily out of this fund. Stop-loss insurance is maintained for this program at \$300,000 per individual. No claims have exceeded insurance coverage in the last three years. Changes in claims liability for fiscal years 2014-15 and 2015-16 were as follows:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Incurred</u>	<u>Payments</u>	<u>End of Fiscal Year Liability</u>
2015-2016	\$1,310,671	\$24,243,566	\$24,243,566	\$1,310,671
2014-2015	1,310,671	22,027,528	22,027,528	1,310,671

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

Plan Description.

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

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

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

Annual OPEB Cost and Net OPEB Obligation

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

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

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

Funding Policy

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

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

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

In July 2005, the City issued \$35,210,000 Taxable OPEB bonds to retire the unfunded actuarial accrued liability then existing in the RHCP Trust Fund, which were fully paid in fiscal year 2015. This allowed the City to reduce its contribution rate. The City's actual regular contribution was less than the annual required contribution calculated using the age-adjusted premiums instead of the blended rate premiums. The difference between the annual required calculation and the City's actual regular



contribution was due to two factors. The first is the amortization of the negative net OPEB obligation created in the fiscal year ended September 30, 2005 by the issuance of the OPEB bonds. The other factor is that the City has elected to contribute based on the blended rate premium instead of the age-adjusted premium, described above as the implicit rate subsidy.

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

Actuarial Methods and Assumptions

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

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

Funded Status

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

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

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

### **Debt Issuance and Management**

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

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## Direct Debt

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

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

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

(2) Does not include the CP Notes.

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

## Defined Benefit Pension Plans

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

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

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

Employees' Plan

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

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

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

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

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

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

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

Employees are eligible for normal retirement:

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

Employees are eligible for early retirement:

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

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

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

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

the retiree must take their DROP balance plus interest as a lump-sum cash disbursement, roll into a retirement account or choose a combination of the two options.

Death benefits are paid as follows:

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

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

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

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

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

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

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

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

Components of Net Pension Liability

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

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

Actuarial Assumptions

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

Mortality Rate:

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

Long-term Expected Rate of Return:

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

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

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

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

Discount Rate:

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

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### Changes in the Net Pension Liability

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

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

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

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

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

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

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

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

<u>Fiscal Year</u>	<u>Pension Expense</u>
2017	\$8,027
2018	8,027
2019	8,027
2020	1,550
Thereafter	0

#### Disability Plan

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

#### Consolidated Plan

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

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

The City 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 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% COLA is applied to retirement benefits each October 1<sup>st</sup> if the retiree has reached eligibility for COLA prior to that date. Eligibility for COLA is determined as follows:

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

*Benefits Provided for Firefighters.* The Consolidated Plan provides retirement, disability and death benefits. Retirement benefits for employees are calculated as a fixed percent (often referred to as "the multiplier") of the employee's FAE times the employee's years of service. For Firefighters, the FAE 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% COLA is applied to retirement benefits each October 1<sup>st</sup> if the retiree has reached eligibility for COLA prior to that date. Eligibility for COLA is determined as follows:

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

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

Death benefits are paid as follows:

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

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

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

Active employees	389
Inactive employees:	
Retirees and beneficiaries currently receiving benefits	410
Vested terminated members entitled to future benefits	<u>19</u>
Total	818

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

The City is required to contribute at an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Firefighters contribute 9.0% of gross pay and Police Officers contribute 7.5% of gross pay. The City's contribution rate for fiscal year 2016 was 14.04% of covered payroll for police personnel and 18.11% for fire personnel. This rate was influenced by the issuance of the Taxable Pension Obligation Bonds, Series 2003B. In addition, State contributions, which totaled \$1,242,741, are also made to the plan on behalf of the City under Chapters 175/185, Florida Statutes. These State contributions

are recorded as revenue and personnel expenditures in the City's General Fund before they are recorded as contributions in the Consolidated Pension Fund. Differences between the required contribution and actual contribution are due to actual payroll experiences varying from the estimated total payroll used in the generation of the actuarially required contribution rate. Administrative costs are financed through investment earnings.

*Net Pension Liability.* The net pension liability related to the Consolidated Plan was measured as of September 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

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

Components of Net Pension Liability

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

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

Actuarial Assumptions

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

Mortality Rate:

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

Other Assumptions:

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

Long-Term Expected Rate of Return:

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

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

Development of Long Term Discount Rate – Arithmetic

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

Discount Rate:

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

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Changes in the Net Pension Liability

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

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

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

	1% Decrease <u>(7.2%)</u>	Current Discount Rate <u>(8.2%)</u>	1% Increase <u>(9.2%)</u>
Net pension liability	\$81,481,528	\$52,583,706	\$28,464,934

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

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

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

The \$3,716,354 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension



liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Consolidated Plan will be recognized in pension expense as follows:

<u>Fiscal Year</u>	
2017	\$3,395,663
2018	3,395,663
2019	3,395,663
2020	3,992,031
Thereafter	94,920

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**APPENDIX B-1**

**AUDITED FINANCIAL STATEMENTS RELATING TO THE SYSTEM**

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
GAINESVILLE REGIONAL UTILITIES  
GAINESVILLE, FLORIDA  
SEPTEMBER 30, 2016 AND 2015**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**GAINESVILLE REGIONAL UTILITIES  
GAINESVILLE, FLORIDA**

**SEPTEMBER 30, 2016 AND 2015**

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## **INDEPENDENT AUDITORS' REPORT**



## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Commissioners  
Gainesville, Florida

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Gainesville Regional Utilities (the Utility) of the City of Gainesville, Florida (the City), as of and for the years ended September 30, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility of the City, as of September 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Certified Public Accountants**

P.O. Box 141270 • 222 N.E. 1st Street • Gainesville, Florida 32614-1270 • (352) 378-2461 • FAX (352) 378-2505  
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542  
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762  
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309  
MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS  
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS



To the Honorable Mayor and City Commissioners  
Gainesville, Florida

**INDEPENDENT AUDITORS' REPORT**  
**(Continued)**

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the schedule of changes in net pension liability and related ratios, schedule of employer contributions, and schedule of investment returns that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The Utility omitted these schedules as they are included in the City's comprehensive annual financial report. Our opinion on the basic financial statements is not affected by this missing information.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utility's basic financial statements. The schedules of net revenues in accordance with bond resolution, combining statements of net position and changes in net position, and schedules of utility plant properties and accumulated depreciation and amortization on pages 83 through 95, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Honorable Mayor and City Commissioners  
Gainesville, Florida

**INDEPENDENT AUDITORS' REPORT**  
**(Concluded)**

**Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Utility and do not purport to, and do not present fairly the financial position of the City, as of September 30, 2016 and 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2017, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance.



March 6, 2017  
Gainesville, Florida

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

## Management's Discussion and Analysis

Gainesville Regional Utilities (GRU or the Utility) is a combined municipal utility operating electric, water, wastewater, natural gas, and telecommunications (GRUCom) systems. GRU is a utility enterprise of the City of Gainesville, Florida (City) and is reported as an enterprise fund in the Comprehensive Annual Financial Report of the City.

We offer readers of GRU's financial statements this management's discussion and analysis of the financial activities of GRU for the fiscal years ended September 30, 2016, 2015, and 2014. It should be read in conjunction with the financial statements that follow this section.

### **Required Financial Statements**

#### **Statement of Net Position**

This statement includes all of GRU's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

#### **Statement of Revenues, Expenses, and Changes in Net Position**

The current and prior year revenues and expenses are reported in this statement along with the resulting change in net position. This statement measures the success of the combined Utility's operations over the past year.

#### **Statement of Cash Flows**

The primary purpose of this statement is to provide information about the combined Utility's cash receipts and cash payments during the fiscal year. This statement reports cash receipts, cash payments, and changes in cash resulting from operating, capital and noncapital financing, and investing activities.

#### **Notes to Financial Statements**

The notes provide additional information that is essential to fully understand the information provided in the financial statements.

Management's Discussion and Analysis (continued)

**Financial Analysis of Gainesville Regional Utilities**

GRU's net position increased \$1.9 million and \$1.4 million for fiscal years 2016 and 2015, respectively, and decreased \$1.7 million for fiscal year 2014. The Condensed Statements of Net Position and Condensed Statements of Revenues, Expenses, and Changes in Net Position follow (in thousands).

**Gainesville Regional Utilities  
Condensed Statements of Net Position**

	2016	2015	2014
Current assets	<b>\$128,918</b>	\$126,006	\$130,712
Restricted and internally designated assets	<b>202,918</b>	240,828	193,442
Noncurrent assets	<b>130,447</b>	113,580	90,701
Capital assets, net	<b>2,144,929</b>	2,166,088	2,196,231
Deferred outflows of resources	<b>127,084</b>	123,985	79,515
Total assets and deferred outflows of resources	<b>\$2,734,296</b>	\$2,770,487	\$2,690,601
Current liabilities	<b>69,957</b>	72,728	70,894
Payable from restricted assets	<b>158,745</b>	55,277	52,029
Long-term debt	<b>1,873,880</b>	2,004,375	1,969,083
Noncurrent liabilities	<b>74,928</b>	91,287	60,819
Deferred inflows of resources	<b>79,822</b>	71,714	64,117
Total liabilities and deferred inflows of resources	<b>2,257,332</b>	2,295,381	2,216,942
Net position:			
Net investment in capital assets	<b>265,323</b>	288,245	314,615
Restricted	<b>82,186</b>	77,427	60,370
Unrestricted	<b>129,455</b>	109,434	98,674
Total net position	<b>476,964</b>	475,106	473,659
Total liabilities, deferred inflows of resources and net position	<b>\$2,734,296</b>	\$2,770,487	\$2,690,601

## Management's Discussion and Analysis (continued)

### Gainesville Regional Utilities Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2016	2015	2014
Operating revenue	<b>\$433,818</b>	\$425,941	\$405,895
Interest income	<b>661</b>	607	714
Other income, BABs	<b>18,699</b>	13,029	5,561
Total revenues	<b>453,178</b>	439,577	412,170
Operating expenses	<b>379,978</b>	366,437	340,247
Interest expense, net of AFUDC	<b>37,811</b>	38,205	37,816
Total expenses	<b>417,789</b>	404,642	378,063
Income before contributions, transfer, and extraordinary item	<b>35,388</b>	34,935	34,107
Capital contributions, net	<b>1,464</b>	1,404	1,525
Transfer to City of Gainesville General Fund	<b>(34,994)</b>	(34,892)	(37,317)
Change in net position	<b>1,858</b>	1,447	(1,685)
Net position, beginning of year	<b>475,106</b>	473,659	475,344
Net position, end of year	<b>476,964</b>	\$475,106	\$473,659

### Financial Highlights

The most significant changes in GRU's financial condition are summarized below:

- Gross utility plant in service increased \$83 million, or 4.7%, in fiscal year 2016. The increase was due primarily to completion of generation, distribution, and control systems facilities. Gross utility plant increased \$59 million, or 2.2% in fiscal year 2015 due to the completion of the Paynes Prairie Sheetflow Restoration project, increases in generation facilities, water supply facilities, and transmission and distribution facilities and increased \$1 billion, or 62% in fiscal year 2014. See Capital Assets within this Management's Discussion and Analysis section, Note 4 Capital Assets, and Note 6 Capital Lease for additional information.
- Long-term debt decreased \$22.2 million, or 2.3%, in fiscal year 2016, due to scheduled principal payments. Long-term debt increased \$22.8 million, or 2.4%, in fiscal year 2015, due to the issuance of utility system revenue bonds and commercial paper notes in December 2014. See Long-Term Debt within this Management's Discussion and Analysis section, Note 6 Capital Lease, and Note 8 Long-Term Debt for additional information.

## Management's Discussion and Analysis (continued)

### Financial Highlights (*Concluded*)

- GRU is completing remediation efforts at a former manufactured gas plant site. The costs incurred to date total \$28.7 million and GRU estimates that total project costs will be approximately \$29.3 million. GRU accrued a regulatory asset and liability to account for the cost and cost recovery of the expense, which is being recognized as customer revenues are received. See Note 14 Commitments and Contingencies for additional information.
- Sales and service charges increased \$0.9 million or 0.3%, increased \$10.2 million or 2.8%, and increased \$41.3 million or 13% in fiscal years 2016, 2015, and 2014, respectively. The increase in sales and service charges in fiscal year 2016 is the result of increases associated with sales, modest base rate increases in the water, wastewater, and gas systems offset by a reduction in the fuel adjustment rates. The increase in sales and service charges in fiscal years 2015 and 2014 is the result of base rate and fuel adjustment increases implemented in October 2014 and 2013.
- Operating expenses increased \$13.5 million or 3.7%, increased \$26.2 million or 7.7%, and increased \$64.2 million or 23.3% in fiscal years 2016, 2015, and 2014, respectively. The increase in operating expenses in fiscal year 2016 is due to increases in operation, maintenance, and administrative expenses. The increase in operating expenses in fiscal years 2015 and 2014 is due primarily to power purchased from a biomass facility.
- Transfers to rate stabilization were \$2.4 million in fiscal year 2016, \$7.7 million in fiscal year 2015, and \$8.9 million in fiscal year 2014 as a result of revenue increases in each year.
- The number of customers for electric services increased 0.3%, water services increased 0.9%, wastewater services increased 1%, and gas services increased 1% in fiscal year 2016. The number of customers for electric services increased 0.8%, water services increased 0.9%, wastewater services increased 1%, and gas services increased 1.1% in fiscal year 2015. The number of customers for electric services increased 0.9%, water and wastewater services increased 0.6%, and gas services increased 0.9% in fiscal year 2014.
- On October 1, 2016, GRU implemented a 3% increase in the revenue requirement for the water system, a 3% increase for the wastewater system, and a 9% increase for the gas system. The electric system experienced no increase or decrease in the revenue requirement, primarily due to reductions in operating expenses through increased efficiency and management of assets.

## Management's Discussion and Analysis (continued)

### Capital Assets

GRU's investment in capital assets as of September 30, 2016, was \$2.1 billion (net of accumulated depreciation and amortization). The decrease in net capital assets for fiscal year 2016 was 1%. In fiscal year 2015, the decrease in net capital assets was 1.4%. The net increase in capital assets for 2014 was 82%, primarily due to a capital lease related to the Gainesville Renewable Energy Center (GREC) biomass plant.

The following table summarizes GRU's capital assets, net of accumulated depreciation and amortization, for the years ended September 30, 2016, 2015, and 2014 (in thousands).

#### Gainesville Regional Utilities Capital Assets (net of accumulated depreciation)

	2016	2015	2014
Generation	<b>\$1,304,581</b>	\$1,338,731	\$1,373,668
Transmission, distribution, and collection	<b>484,350</b>	481,293	465,826
Treatment	<b>124,791</b>	87,378	80,916
General plant	<b>121,515</b>	127,090	133,832
Construction work in progress	<b>109,692</b>	131,596	141,989
Total net utility plant	<b><u>\$2,144,929</u></b>	<u>\$2,166,088</u>	<u>\$2,196,231</u>

Major capital asset events during the fiscal years include:

- GRU initially recorded a capital lease asset during fiscal year 2014 when GREC began commercial operations in December 2013. The capital lease asset was recorded at \$1 billion at September 30, 2016, 2015, and 2014, respectively. See Note 6 Capital Lease for additional information.
- Electric transmission and distribution expansion was \$13.5 million in fiscal year 2016, \$11.4 million in fiscal year 2015, and \$12.1 million in fiscal year 2014. For 2016, \$6.3 million was spent on underground system improvements.
- Electric generation capital expenditures were \$10 million for fiscal year 2016. These expenditures included \$2.7 million for the John R Kelly (JRK) generating station and \$7.3 million for the Deerhaven (DH) generating station.
- Water capital expenditures were \$7.2 million in fiscal year 2016 with \$2.4 million for supply, pumping, and treatment and \$4.1 million for transmission and distribution.
- Wastewater capital expenditures were \$16.9 million in 2016. This included \$8.5 million spent on the Kanapaha Biosolids Dewatering program.



## Management's Discussion and Analysis (continued)

### Capital Assets (Concluded)

- Gas distribution expansion expenditures were \$3.1 million in 2016, \$3.8 million in 2015, and \$3 million in 2014. This expansion included expenditures of \$1.1 million in gas distribution mains, \$0.8 million in residential gas services, and \$0.7 million in meter change outs.

Additional information may be found in Note 4 Capital Assets.

### Long-Term Debt

At September 30, 2016, 2015, and 2014, GRU had total long-term debt outstanding of \$1.9 billion, \$1.9 billion, and \$1.9 billion, respectively, comprised of utilities system revenue bonds, commercial paper notes, and a capital lease (in thousands).

#### Gainesville Regional Utilities Outstanding Debt at September 30:

	2016	2015	2014
Utilities system revenue bonds	\$ 889,075	\$ 905,880	\$ 885,950
Commercial paper notes	59,500	64,900	62,000
Capital lease	959,679	977,280	994,108
<b>Total</b>	<b>\$ 1,908,254</b>	<b>\$ 1,948,060</b>	<b>\$ 1,942,058</b>

Major long-term debt events during the fiscal years include:

- In December 2014, the City issued two series of 2014 Utilities System Revenue Bonds. The 2014 Series A Bonds in the amount of \$38 million were issued to provide funds for the payment of the cost and acquisition and construction of certain improvements to the System.
- Also in December 2014, the 2014 Series B Bonds in the amount of \$31 million were issued to provide funds to refund a portion of the 2005 Series A Bonds and a portion of the 2008 Series A Bonds.
- During fiscal year 2016, GRU reduced utilities system revenue bonds and commercial paper notes by \$22.2 million through scheduled principal payments.
- As a result of the start of commercial operation of the GREC biomass plant in December 2013, GRU recorded a capital lease liability of \$959.7 million, \$977.3 million, and \$994.1 million at September 30, 2016, 2015, and 2014, respectively. See Note 6 Capital Lease for additional information.

## Management's Discussion and Analysis (continued)

### **Long-Term Debt (Concluded)**

- The Utility has ratings of Aa2, AA-, and AA- with Moody's Investors Service, Standard & Poor's, and Fitch Ratings, respectively, for utility system revenue bonds. The Utility has ratings of P-2 or better, A-2 or better, and F2 or better with Moody's Investors Service, Standard & Poor's, and Fitch Ratings, respectively, for commercial paper notes. In November 2015, Standard & Poor's lowered its ratings on long-term debt from AA to AA- citing GRU's commitment to making fixed payments to GREC.

Additional information may be found in Note 8 Long-Term Debt.

### **Currently Known Facts or Conditions that May Have a Significant Effect on GRU's Financial Condition or Results of Operations**

- GRU management, with the approval of the City Commission, entered into a long-term contract to obtain dependable capacity, energy, and environmental attributes from GREC's 100 megawatt biomass fueled power plant. The facility is located on a portion of land leased from GRU's Deerhaven power plant site and is owned by a third party. The plant became commercially operable in December 2013.
- On March 10, 2016, arbitration was filed by GREC with the American Arbitration Association (AAA) against GRU alleging that GREC did not have to perform a scheduled annual Planned Maintenance outage for April 2016. Prior to the dispute and the arbitration being filed with the AAA, GRU and GREC mutually agreed in writing to an annual Planned Maintenance Outage for twenty-one days, scheduled to take place April 9-29, 2016. GREC unilaterally cancelled the twenty-one day mutually agreed upon annual Planned Maintenance outage. Section 10.4.1(a) of the Power Purchase Agreement (PPA) requires GREC to submit a written annual maintenance plan containing its forecast of planned maintenance for the coming year no later than sixty (60) days prior to the start of each calendar year. Any and all changes to such plan shall be mutually agreeable to GREC and GRU. In April of 2016, GRU withheld \$4.1 million in Available Energy invoice payments related to the agreed upon annual Planned Maintenance outage. As of September 30, 2016, GRU has withheld approximately \$6.8 million for various commercial disputes related to the PPA. Both GRU and GREC have filed motions for summary judgment on several of the claims, and the briefing schedule on dispositive motions runs through January 24, 2017. For those outstanding claims that are not resolved by summary judgment, the arbitration hearing is scheduled for two weeks in June 2017, in Gainesville, Florida. Management believes that GRU has valid defenses to the claims, and GRU is vigorously defending such action. Due to the uncertainties of arbitration GRU, at this stage, cannot offer an opinion as to likely outcomes of the arbitration or the effect thereof. In the event, however, that this action is determined adversely to GRU, Management believes that such determination will not have a material adverse effect on the financial condition of GRU. See Note 14 Commitments and Contingencies for additional information.

## Management's Discussion and Analysis (continued)

### **Currently Known Facts or Conditions that May Have a Significant Effect on GRU's Financial Condition or Results of Operations (*Concluded*)**

- 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 Federal Energy Regulatory Commission 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.
- Utilities, and particularly electric utilities, are subject to increasing federal, state, and local statutory and regulatory requirements with respect to the siting and licensing of facilities, safety and security, air and water quality, land use, and other environmental factors.
- On October 26, 2016, the EPA published an update to the Cross-State Air Pollution Rule ("CSAPR"). For three states, including Florida, the EPA is removing them 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. Therefore, GRU will not have to meet any ozone season limits in 2017 and probably 2018.
- In late 2011, the EPA promulgated the Mercury and Air Toxics Standards (MATS) to reduce emissions of toxic air pollutants from power plants which faced several legal challenges including a decision on June 29, 2015, by the U.S. Supreme Court reversing the District of Columbia Circuit Court's decision to uphold the EPA's rule establishing the standards. But since the Supreme Court did not vacate the rule, the MATS rule remained in effect. On April 14, 2016, the Administrator of the EPA signed the final supplemental finding in the MATS rule and concluded it is proper to regulate mercury emissions from power plants. GRU's Deerhaven (DH) Unit #2 is the only generation unit affected by the MATS rule and air quality control systems are currently in place at DH which enables this station to comply with these standards at a known cost for operations and reagents. See Note 14 Commitments and Contingencies for additional information.
- Legislation and regulation at the federal level has been proposed to mandate the use of renewable energy and to constrain the emission of greenhouse gases. GRU's institution of a solar feed-in-tariff and contract to purchase power from a 100 megawatt biomass fueled power plant will hedge against these uncertainties.
- GRU's long-term energy supply strategy is to encourage maximum cost effective energy conservation, renewable energy in combination with GRU owned generation, and purchased power while managing potential regulatory requirements. Based on the most recent forecasts, GRU has adequate reserves of generating capacity to meet forecasted loads plus a reserve margin through 2022. This forecast incorporates new population forecasts and changed economic circumstances.

## Management's Discussion and Analysis (concluded)

### **Requests for Information**

This financial report is designed to provide a general overview of GRU's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Gainesville Regional Utilities, P.O. Box 147117, Station A-105, Gainesville, Florida 32614-7117.

## **FINANCIAL STATEMENTS**

Gainesville Regional Utilities  
Statements of Net Position  
September 30, 2016 and 2015

	2016	2015
<b>Assets</b>		
Current assets:		
Cash and investments	\$ 62,635,050	\$ 53,539,963
Accounts receivable, net of allowance for uncollectible accounts of \$837,332 and \$988,585, respectively	49,351,371	47,394,281
Inventories:		
Fuel	8,162,677	15,524,239
Materials and supplies	6,946,095	7,295,944
Other assets and regulatory assets	1,822,993	2,252,039
Total current assets	128,918,186	126,006,466
Restricted and internally designated assets:		
Utility deposits – cash and investments	9,891,380	9,256,442
Debt service – cash and investments	41,714,440	40,816,148
Rate stabilization – cash and investments	74,262,078	72,104,746
Construction fund – cash and investments	18,258,514	51,108,130
Utility plant improvement fund – cash and investments	58,792,082	55,023,201
Decommissioning reserve – cash and investments	–	12,518,938
Total restricted and internally designated assets	202,918,494	240,827,605
Noncurrent assets:		
Net costs recoverable in future years - regulatory asset	46,423,923	30,464,864
Unamortized debt issuance costs - regulatory asset	5,821,432	6,166,893
Investment in The Energy Authority	2,102,681	2,561,878
Pollution remediation - regulatory asset	12,826,026	13,839,247
Other noncurrent assets and regulatory assets	7,156,828	6,659,099
Pension regulatory asset	56,115,877	53,887,756
Total noncurrent assets	130,446,767	113,579,737
Capital assets:		
Utility plant in service	1,866,654,212	1,783,670,200
Capital lease	1,006,808,754	1,006,808,754
Less: accumulated depreciation and amortization	(838,225,820)	(755,986,892)
	2,035,237,146	2,034,492,062
Construction in progress	109,692,217	131,596,255
Net capital assets	2,144,929,363	2,166,088,317
Total assets	2,607,212,810	2,646,502,125
<b>Deferred outflows of resources:</b>		
Unamortized loss on refundings of bonds	24,766,323	28,160,367
Accumulated decrease in fair value of hedging derivatives	81,362,499	73,650,013
Pension costs	20,954,810	22,174,505
Total deferred outflows of resources	127,083,632	123,984,885
<b>Total assets and deferred outflows of resources</b>	<b>\$ 2,734,296,442</b>	<b>\$ 2,770,487,010</b>

Continued on next page.

See accompanying notes.

Gainesville Regional Utilities  
Statements of Net Position (concluded)  
September 30, 2016 and 2015

	2016	2015
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 21,154,977	\$ 14,819,222
Fuels payable	12,170,813	10,641,720
Due to other funds of the City	1,489,944	4,120,066
Capital lease – current portion	18,409,781	17,601,233
Fuel adjustment	14,831,564	18,799,724
Other liabilities and regulatory liabilities	1,899,847	6,745,982
Total current liabilities	<u>69,956,926</u>	<u>72,727,947</u>
Payable from restricted assets:		
Utility deposits	9,879,734	9,252,627
Construction fund:		
Accounts payable and accrued liabilities	9,213,425	5,013,087
Utilities system revenue bonds – current portion	107,535,000	16,805,000
Commercial paper notes – current portion	13,600,000	5,400,000
Accrued interest payable	18,516,765	18,806,345
Total payable from restricted assets	<u>158,744,924</u>	<u>55,277,059</u>
Long-term debt:		
Utilities system revenue bonds	781,540,000	889,075,000
Commercial paper notes	45,900,000	59,500,000
Capital lease	941,269,071	959,678,852
Unamortized bond premium/discount	17,990,208	19,078,029
Fair value of derivative instruments	87,180,294	77,042,767
Total long-term debt	<u>1,873,879,573</u>	<u>2,004,374,648</u>
Noncurrent liabilities:		
Reserve for insurance claims	3,337,000	3,337,000
Reserve for decommissioning CR3	–	11,621,938
Reserve for environmental liability	266,000	266,000
Net pension liability	71,325,377	76,062,261
Total noncurrent liabilities	<u>74,928,377</u>	<u>91,287,199</u>
Total liabilities	<u>2,177,509,800</u>	<u>2,223,666,853</u>
<b>Deferred inflows of resources:</b>		
Rate stabilization	74,077,388	71,714,541
Pension costs	5,745,310	–
Total deferred inflows of resources	<u>79,822,698</u>	<u>71,714,541</u>
<b>Net position</b>		
Net investment in capital assets	265,322,741	288,244,860
Restricted	82,186,093	77,427,024
Unrestricted	129,455,110	109,433,732
Total net position	<u>476,963,944</u>	<u>475,105,616</u>
<b>Total liabilities, deferred inflows of resources and net position</b>	<u>\$ 2,734,296,442</u>	<u>\$ 2,770,487,010</u>

See accompanying notes.

**Gainesville Regional Utilities**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**For the Years Ended September 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
Operating revenue:		
Sales and service charges	\$ 379,830,526	\$ 378,901,113
Transfers to rate stabilization	(2,362,847)	(7,703,682)
Amounts to be recovered from future revenue	33,560,292	33,560,292
Other operating revenue	22,789,836	21,183,478
Total operating revenues	433,817,807	425,941,201
Operating expenses:		
Operation and maintenance	230,128,599	227,535,288
Administrative and general	50,506,178	43,447,535
Depreciation and amortization	99,343,149	95,454,204
Total operating expenses	379,977,926	366,437,027
Operating income	53,839,881	59,504,174
Non-operating income (expense):		
Investment income	661,066	606,556
Interest expense, net of AFUDC	(37,811,533)	(38,205,243)
Other interest related income, BABs	5,372,529	5,345,162
Other income (expense)	13,326,513	7,683,990
Total non-operating expense	(18,451,425)	(24,569,535)
Income before contributions and transfers	35,388,456	34,934,639
Capital contributions:		
Contributions from third parties	1,659,399	1,495,813
Reduction of plant costs recovered through contributions	(194,936)	(91,553)
Net capital contributions	1,464,463	1,404,260
Transfer to City of Gainesville General Fund	(34,994,591)	(34,892,425)
Change in net position	1,858,328	1,446,474
Net position – beginning of year	475,105,616	473,659,142
Net position – end of year	\$ 476,963,944	\$ 475,105,616

See accompanying notes.



**Gainesville Regional Utilities**  
**Statements of Cash Flows**  
For the Years Ended September 30, 2016 and 2015

	<b>2016</b>	<b>2015</b>
Operating activities:		
Cash received from customers	<b>\$ 379,135,491</b>	\$ 378,309,615
Cash payments to suppliers for goods and services	<b>(202,870,326)</b>	(192,523,783)
Cash payments to employees for services	<b>(54,591,582)</b>	(54,469,560)
Cash payments for operating transactions with other funds	<b>(6,629,986)</b>	(6,767,533)
Other operating receipts	<b>20,426,989</b>	13,479,796
Net cash provided by operating activities	<b>135,470,586</b>	138,028,535
Noncapital financing activities:		
Transfer to City of Gainesville General Fund	<b>(34,994,591)</b>	(34,892,425)
Net cash used in noncapital financing activities	<b>(34,994,591)</b>	(34,892,425)
Capital and related financing activities:		
Principal repayments and refunding on long-term debt, net	<b>(22,205,000)</b>	(21,480,000)
Interest paid on long-term debt	<b>(38,101,113)</b>	(37,939,699)
Proceeds from interest rebates, BABs	<b>5,372,529</b>	5,345,162
Acquisition and construction of fixed assets (including allowance for funds used during construction)	<b>(77,099,955)</b>	(64,402,846)
Proceeds from new debt and commercial paper	-	51,306,295
Cash payment for defeasance of bonds	-	(22,681,138)
Cash receipt for defeasance of bonds	-	22,681,138
Other income	<b>3,149,084</b>	7,683,990
Net cash used in capital and related financing activities	<b>(128,884,455)</b>	(59,487,098)
Investing activities:		
Interest received	<b>661,066</b>	589,783
Purchase of investments	<b>(390,235,264)</b>	(387,266,056)
Investments in The Energy Authority	<b>(6,787,229)</b>	(4,557,068)
Distributions from The Energy Authority	<b>7,246,426</b>	4,696,789
Proceeds from investments	<b>375,286,264</b>	348,923,707
Proceeds from CR3 settlement	<b>10,177,429</b>	-
Net cash used by investing activities	<b>(3,651,308)</b>	(37,612,845)
Net change in cash and cash equivalents	<b>(32,059,768)</b>	6,036,167
Cash and cash equivalents, beginning of year	<b>81,595,541</b>	75,559,374
Cash and cash equivalents, end of year	<b>\$ 49,535,773</b>	\$ 81,595,541

*Continued on next page.  
See accompanying notes.*

**Gainesville Regional Utilities**  
**Statements of Cash Flows (concluded)**  
**For the Years Ended September 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<b>\$ 53,839,881</b>	\$ 59,504,174
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	<b>99,343,149</b>	95,454,204
Net costs to be recovered in future rates	<b>(15,959,059)</b>	(16,732,099)
Change in:		
Accounts receivable	<b>(1,957,090)</b>	(1,456,953)
Inventories	<b>7,711,411</b>	(4,677,172)
Other assets and regulatory assets	<b>429,046</b>	74,176
Restricted and internally designated assets	<b>(11,964,460)</b>	(6,108,254)
Noncurrent assets	<b>998,220</b>	1,969,281
Accounts payable and accrued liabilities	<b>7,864,848</b>	(6,819,953)
Due to other funds of the City	<b>(2,630,122)</b>	977,567
Fuel adjustment	<b>(3,968,160)</b>	2,835,836
Other liabilities and regulatory liabilities	<b>(1,861,980)</b>	4,544,991
Utility deposits	<b>1,262,055</b>	865,455
Rate stabilization	<b>2,362,847</b>	7,597,282
Net cash provided by operating activities	<b><u>\$ 135,470,586</u></b>	<b><u>\$ 138,028,535</u></b>
Non-cash capital and related financing activities, and investing activities:		
Contribution of capital assets	<b>\$ 1,464,463</b>	\$ 1,404,260
Net costs recoverable in future years	<b>\$ (15,959,059)</b>	\$ (16,732,099)
Change in capital lease liability	<b>\$ (17,601,233)</b>	\$ (16,828,193)
Acquisition of utility plant in service with construction fund payable	<b>\$ 4,200,338</b>	\$ 1,326,553
Change in ineffective portion of hedging derivatives	<b>\$ (693,448)</b>	\$ (660,507)
Change in accumulated decrease in fair value of hedging derivatives - interest rate swaps	<b>\$ (9,444,078)</b>	\$ (21,278,744)
Change in accumulated decrease in fair value of hedging derivatives - fuel options and futures	<b>\$ 1,731,592</b>	\$ (1,622,410)
Change in fair market value of investments	<b>\$ 215,968</b>	\$ 832,532
Change in fair market value of hedging derivatives	<b>\$ 10,137,527</b>	\$ 21,939,252
Other	<b>\$ (2,303,123)</b>	\$ (1,453,466)

See accompanying notes.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### 1. Summary of Significant Accounting Policies

#### Organization

Gainesville Regional Utilities (GRU or the Utility) is a combined municipal utility operating electric, water, wastewater, natural gas, and telecommunications (GRUCom) systems. GRU is a utility enterprise of the City of Gainesville, Florida (City) and is reported as an enterprise fund in the Comprehensive Annual Financial Report of the City. 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.

#### System of Accounts and Basis of Accounting

GRU is required to follow the provisions in the Amended and Restated Utilities System Revenue Bond Resolution (Resolution) adopted by the City on January 30, 2003. GRU's electric and gas accounts are maintained substantially in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC), as required by the Resolution, and in conformity with accounting principles generally accepted in the United States of America using the accrual basis of accounting, including the application of regulatory accounting as described in Governmental Accounting Standards Board (GASB) Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

GRU prepares its financial statements in accordance with GASB Statement No. 62, paragraphs 476-500, *Regulated Operations*, and records various regulatory assets and liabilities. For a government to report under GASB Statement No. 62, its rates must be designed to recover its costs of providing services, and the utility must be able to collect those rates from customers. If it were determined, whether due to regulatory action or competition, that these standards no longer applied, GRU could be required to expense its regulatory assets and liabilities. Management believes that GRU currently meets the criteria for continued application of GASB Statement No. 62, but will continue to evaluate significant changes in the regulatory and competitive environment to assess continuing applicability of the criteria.

The Resolution specifies the flow of funds from revenues and the requirements for the use of certain restricted and unrestricted assets. Under the Resolution, rates are designed to cover operation and maintenance expenses, rate stabilization, debt service requirements, utility plant improvement fund contributions, and for any other lawful purpose. The flow of funds excludes depreciation expense and certain other noncash revenue and expense items. This method of rate setting results in costs being included in the determination of rates in different periods than when these costs are recognized for financial statement purposes. The effects of these differences are recognized in the determination of operating income in the period that they occur, in accordance with GRU's accounting policies.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### 1. Summary of Significant Accounting Policies (continued)

#### Fiscal Year 2015 GASB Pronouncement Implementations

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, amends the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to governmental employers that account for pensions that are provided through trusts, or equivalent arrangements. GRU adopted the requirements of GASB Statement No.68 in fiscal year 2015. This statement provides guidance for the measurement and recognition of a net pension liability and pension expense, and includes instruction for balances to be recognized as deferred outflows of resources and deferred inflows of resources, as applicable. The impact for GRU is as follows:

#### *Net pension liability*

The net pension liability reported under GASB Statement No. 68 is the difference between the total pension liability and the Employees' Pension Plan (Employees' Plan) fiduciary net position.

#### *Deferred outflows of resources and deferred inflows of resources*

GASB Statement No. 68 requires recognition of deferred outflows and deferred inflows of resources associated with the difference between expected and actual earnings on Plan investments, to be amortized to pension expense over a closed five-year period. Also to be recognized as deferred outflows and deferred inflows of resources are differences between expected and actual experience with regard to economic or demographic factors in the measurement of total pension liability, to be amortized to pension expense over a closed period equal to the average of the expected remaining service lives of all employees receiving pension benefits. Employer contributions to the pension trust made between the net pension liability measurement date and the employer's fiscal year-end are recognized as deferred outflows of resources, to be included in pension expense in the subsequent fiscal year.

#### *Pension regulatory asset*

GASB Statement No. 68 was effective for financial statement periods beginning after June 15, 2014, with the effects of accounting change applied retroactively by restating the financial statements. The Utility used regulatory accounting, as permitted under GASB Statement No. 62, and recorded a regulatory asset of \$46.1 million as of September 30, 2014. The pension regulatory asset was \$56.1 million and \$53.9 million at September 30, 2016 and 2015, respectively. See Note 15 Retirement Plans for additional information.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **1. Summary of Significant Accounting Policies (continued)**

#### **Fiscal Year 2015 GASB Pronouncement Implementations (concluded)**

##### *Pension regulatory asset (concluded)*

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting guidance related to government combinations and disposals of government operations. The term government combinations refer to a variety of transactions and may be mergers, acquisitions or transfers of operations. This standard sets forth definitions of each of these transaction types and prescribes the specific accounting and reporting treatment to be given for each. The Statement also provides accounting and reporting guidance for disposals of government operations that have been sold or transferred. The requirements of this Statement are applied, beginning in fiscal year 2015, to applicable combination and disposal transactions into which the Utility enters. As of September 30, 2016 and 2015, GRU was not a party to any transaction types within the scope of this guidance.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement No. 68, provides guidance specific to the initial period reflecting the adoption of Statement No. 68 for amounts associated with contributions, if any, made by a contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. A beginning deferred outflow of resources is required for pension contributions made subsequent to the measurement date of the beginning net pension liability. GRU has not reported any contributions subsequent to the measurement date as its measurement date and reporting period are the same.

#### **Fiscal Year 2016 GASB Pronouncement Implementations**

GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value 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 a measurement date. Statement No. 72 requires that investments should generally be measured at fair value, with certain investments, such as short-term money market instruments, being specifically excluded from the requirement. Disclosures required by the standard include a description of the inputs and methods used to measure fair value. The adoption of Statement No. 72 resulted in the addition to GRU's financial statement footnotes of new disclosures describing assets and liabilities reported at fair value and the valuation techniques used to determine fair value.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **1. Summary of Significant Accounting Policies (continued)**

#### **Fiscal Year 2016 GASB Pronouncement Implementations (concluded)**

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. Implementation of this guidance did not have any significant impact on GRU's financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, provides guidance for two new recognized categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Implementation of this guidance did not have any significant impact on GRU's financial statements.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, was issued to address how certain investment pool transactions are reported in response to anticipated changes in a U.S. Securities and Exchange Commission (SEC) rule that was previously included in GASB literature by reference. As of September 30, 2016 and 2015, GRU was not a party to any transaction types within the scope of this guidance.

#### **Future GASB Pronouncement Implementations**

GASB Statement No. 74, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*, replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plan*, as they relate to certain other postemployment benefit ("OPEB") plans that are administered through trusts or equivalent arrangements. This Statement requires more extensive note disclosures and other information related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. GRU is currently evaluating the impact that adoption of this Statement will have on its financial statements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. This Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, including the recognition and measurement of liabilities, deferred outflows of resources, deferred inflows of resources and expense. For each qualifying plan providing postemployment benefits other than pensions,

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **1. Summary of Significant Accounting Policies (continued)**

#### **Future GASB Pronouncement Implementations (concluded)**

employers are required to report the difference between the actuarial OPEB liability and the related plan's fiduciary net position as the net OPEB liability on the statement of net position. Previously, a liability was recognized only to the extent that contributions made to each plan were exceeded by the actuarially calculated contributions for those plans. Additionally, Statement No. 75 sets forth note disclosure and required supplementary disclosure requirements for defined contribution OPEB. GRU is currently evaluating the impact that adoption of this Statement will have on its financial statements.

GASB Statement No. 77, *Tax Abatement Disclosures*, provides financial disclosure requirements for governments that enter into tax abatement agreements. This Statement indicates how disclosures for tax abatements should be organized and what descriptive information, including commitments made by the entity, should be presented. This standard will be adopted in the fiscal year ending January 31, 2018. GRU is not a tax-levying government and is not a party to tax abatement agreements. There is no expected impact on the financial statements.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, clarifies requirements for the application of GASB Statement No. 68 for certain governments whose employees receive pension benefits through multiple-employer plans. As GRU does not provide benefits through the type of plan addressed by this Statement, the guidance is not applicable and will have no impact on the Utility's financial reporting.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of certain component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. Because GRU does not have component units, GRU is not expected to be a party to the scope of this guidance.

#### **Rates and Regulation**

GRU is regulated by the Gainesville City Commission (City Commission) and GRU's rates are established in accordance with the Resolution. Each year during the budget process, and at any other time deemed necessary, the City Commission approves base rate changes and other changes to GRU's system charges as applicable.

The Florida Public Service Commission (PSC) does not regulate rate levels in any of GRU's utility systems. They do, however, have jurisdiction over the rate structure for the electric system.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **1. Summary of Significant Accounting Policies (continued)**

#### **Funds in Accordance with the Resolution**

Certain restricted funds of GRU are administered in accordance with the Resolution:

- Debt Service Fund
- Subordinated Indebtedness Fund
- Rate Stabilization Fund
- Construction Fund
- Utility Plant Improvement Fund

The Debt Service Fund accounts for funds accumulated to provide payment of principal and interest on or redeem outstanding debt.

The Subordinated Indebtedness Fund, grouped in the Debt Service Fund for financial reporting purposes, accounts for funds accumulated to pay principal and interest on subordinated indebtedness.

The Rate Stabilization Fund accounts for funds accumulated to stabilize rates over future periods through the transfer of funds to and from operations cash and investments as applicable.

The Construction Fund accounts for funds accumulated for the cost of acquisition and construction of the systems.

The Utility Plant Improvement Fund accounts for funds used to pay for capital projects, debt service, the purchase/redemption of bonds, repayment of bonds, and operation and maintenance expenses as applicable.

#### **Reclassifications**

Certain 2015 amounts have been reclassified to conform to the 2016 presentation.

#### **Statement of Cash Flows**

For purposes of the Statement of Cash Flows, cash and cash equivalents are defined as all liquid investments with an original maturity of three months or less.

#### **Fuel Inventories**

Fuel stocks in the electric system, which are stated using the last-in, first-out (LIFO) method, are recorded as inventory when purchased. The cost of fuel used for electric generation is charged to expense as consumed.



# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### 1. Summary of Significant Accounting Policies (continued)

#### Materials and Supplies Inventories

Inventories are stated at cost using the weighted average unit cost method when purchased and then expensed or capitalized, as appropriate. Obsolete and unusable materials and supplies are expensed.

#### Investments

Investments in U.S. Treasury and government agencies are reported at fair value, as determined by quoted market prices or independent pricing sources. Investments in commercial paper are recorded at amortized cost, which approximates fair value. More information is provided in Note 2 Deposits and Investments.

#### Costs Recoverable in Future Years

The Power Purchase Agreement (PPA) with the Gainesville Renewable Energy Center (GREC) is recorded as a capital lease. Activity related to this lease generates a non-cash flow related to depreciation expense which is recorded as net costs recoverable in future years. These net costs recoverable in future years represent the amount by which depreciation expense exceeds principal repayment on the capital lease obligation of \$15.9 million and \$16.7 million for the years ended September 30, 2016 and 2015, respectively.

#### Debt Issuance Costs

Prior to fiscal year 2014, GRU had historically reported debt issuance costs as assets and amortized them over the life of the related debt. Pursuant to GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, GRU was required for fiscal year 2014 to adopt the provisions of this statement to ensure compliance with required accounting standards and expense these types of costs. GRU, as a rate-regulated entity and in accordance with guidance found in GASB Statement No. 62, received approval from the City Commission in fiscal year 2014 to establish a regulatory asset for the debt issuance costs that would otherwise have been expensed upon implementation of GASB Statement No. 65. This regulatory accounting treatment results in the amortization of these costs over the life of the related debt. Unamortized debt issuance costs were \$5.8 million and \$6.2 million for the years ended September 30, 2016 and 2015, respectively.

#### Capital Assets and Depreciation

Capital assets are recorded at historical cost and include utility plant and general plant assets. The costs of capital assets include material, labor, vehicle and equipment usage, related overhead items, capitalized interest, and certain administrative and general expenses. Maintenance and replacements of minor items are charged to operations and maintenance expenses. When units of depreciable property are retired, the original cost and removal cost, less salvage, are charged to accumulated depreciation. GRU has a capitalization threshold of \$2,500 for general plant assets and no capitalization threshold for utility plant.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **1. Summary of Significant Accounting Policies (continued)**

#### **Capital Assets and Depreciation (concluded)**

Depreciation of capital assets is computed using the straight-line method over the estimated lives of the assets ranging from 6 to 50 years. The overall depreciation rate was 3.28% and 3.92% for the periods ending September 30, 2016 and 2015, respectively.

#### **Allowance for Funds Used During Construction (AFUDC)**

An allowance for interest on borrowed funds used during construction of \$1.1 million and \$1.2 million for the years ended September 30, 2016 and 2015, respectively, was included in construction in progress and as a reduction of interest expense. These amounts are computed by applying the effective interest rate on the funds borrowed to finance the projects to the monthly balance of projects under construction. The effective interest rate was approximately 4.1% and 4.01% for fiscal years 2016 and 2015, respectively.

#### **Contributions in Aid of Construction**

GRU recognizes capital contributions to the electric and gas systems as revenues which are subsequently expensed in the same period for capital contributions that will not be recovered in rates in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

GRU recognizes capital contributions to the water, wastewater, and GRUCom systems as revenues in the period received. Depreciation on these assets is recorded on a straight-line basis over the estimated lives of the assets.

#### **Hedging Derivative Instruments**

GRU records fuel and financial related derivative instruments in accordance with GASB Statement No. 53, *Accounting and Reporting for Financial and Derivative Instruments*. All effective derivative instruments are included in the Statements of Net Position as either an asset or liability measured at fair market value. All ineffective derivative instruments are recorded as a regulatory asset. Changes in the fair value of the hedging derivative instruments during the year are recorded as either deferred outflows or deferred inflows and are recognized in the period in which the derivative is settled. The settlement of fuel and financial related hedging derivative instruments are included as a part of fuel costs and interest expense, respectively, in the Statements of Revenues, Expenses, and Changes in Net Position.

GRU conducts a risk management program with the intent of reducing the impact of fuel price increases for its customers. The program utilizes futures and options contracts that are traded on the New York Mercantile Exchange (NYMEX) so that prices may be fixed or reduced for given

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **1. Summary of Significant Accounting Policies (continued)**

#### **Hedging Derivative Instruments (concluded)**

volumes of gas that the utility projects to consume during a given production month. This program is based on feedback and direction from GRU's Risk Oversight Committee, consultation and recommendations from reputable risk management sources, and close monitoring of the market.

#### **Deferred Outflows of Resources**

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

##### *Unamortized loss on refunding of bonds*

Losses on refunding of bonds have been deferred. These amounts are being amortized over the life of the old debt or the life of the new debt, whichever is shorter.

##### *Accumulated decrease in fair value of hedging derivatives*

GRU has two types of hedging instruments: interest rate swap agreements and natural gas hedges. Each is associated with an item that is eligible to be hedged. For effective hedging transactions, hedge accounting is applied and fair market value changes are recorded on the statement of net position as either a deferred inflow of resources or a deferred outflow of resources until such time that the transaction ends.

##### *Unrealized contributions and losses related to pension*

Recognition of deferred outflows of resources related to pension costs totaled \$21 million and \$22.2 million as of September 30, 2016 and 2015, respectively. See Note 15 Retirement Plan for additional information.

#### **Deferred Inflows of Resources**

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

##### *Rate stabilization*

GRU designs its rates to recover costs of providing services. In order to stabilize future rate increases or decreases, GRU determines a rate stabilization amount to be charged or credited to revenues on an annual basis. There were rate stabilization additions of \$2.4 million and \$7.7 million for the years ended September 30, 2016 and 2015, respectively. These amounts are reflected as increases or decreases in deferred inflows – rate stabilization in the accompanying statements of net position.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **1. Summary of Significant Accounting Policies (continued)**

#### **Deferred Inflows of Resources (concluded)**

##### *Unrealized gains related to pension*

Recognition of deferred inflows of resources related to unrealized gains for the pension plan totaled \$5.7 million and \$0 million as of September 30, 2016 and 2015, respectively.

#### **Net Position**

GRU classifies net position into three components as follows:

Net investment in capital assets – consists of capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – consists of non-capital assets that must be used for a particular purpose as specified by creditors, contributors, grantors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – consists of assets that do not meet the definition of net investment in capital assets or restricted net position.

When both restricted and unrestricted resources are available for use, it is GRU's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### **Revenue Recognition**

Revenue is recognized when earned. GRU accrues for services rendered but unbilled, which totaled approximately \$14.4 million and \$14.9 million at September 30, 2016 and 2015, respectively.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **1. Summary of Significant Accounting Policies (concluded)**

#### **Revenue Recognition (concluded)**

Fuel and purchased gas adjustment levelization revenue is recognized as expenses are incurred. Amounts charged to customers for fuel are based on estimated costs. The amount charged in the fuel adjustment is adjusted and approved by the City Commission as deemed necessary. If the amount recovered through billings exceeds actual fuel expenses, GRU records the excess billings as a liability. If the amount recovered through billings is less than actual fuel expenses, GRU records the excess fuel expense as a reduction of the liability or as an asset. See Note 7 Fuel and Purchased Gas Adjustment Levelization for additional information.

#### **Pledged Revenues**

Under the terms of the Resolution relating to the sale of the Utilities System Revenue Bonds, payment of principal and interest is secured by an irrevocable lien on GRU's net revenue (exclusive of any funds that may be established pursuant to the Resolution for certain other specified purposes), including any investments and income thereof. The Utilities System Revenue Bonds have a first lien and the Commercial Paper Series C and D Notes have a second lien. The Resolution contains certain restrictions and commitments, including GRU's covenant to establish and maintain rates and other charges to produce revenue sufficient to pay operation and maintenance expenses, amounts required for deposit in the debt service fund, and amounts required for deposit in the utility plant improvement fund.

#### **Operating, Non-operating Revenues**

GRU defines operating revenues as that revenue which is derived from customer sales or service charges and recoveries related to future rate collections, and other items. Non-operating revenues include interest on investments, gains and losses on sales of assets, and other items. Substantially all of GRU's operating revenues are pledged to the repayment of Utility System Revenue Bonds.

#### **Transactions with the City**

As an enterprise fund of the City, transactions occur between GRU and the City's governmental and business type funds throughout the year in the ordinary course of operations.

Below is a summary of significant transactions:

- Administrative services – GRU provides payment for various administrative and insurance services provided by the City's governmental and business type functions.
- Nonmetered and metered service charges – GRU receives payment from the City for all nonmetered and metered service charges.
- Operating transfer to the General Fund – GRU makes payments to the City's General Fund from operating revenues. See Note 13 Transfer to General Fund for additional information.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

### 2. Deposits and Investments

The institutions in which GRU's monies are deposited are certified as Qualified Public Depositories under the Florida Public Deposit Act. Therefore, GRU's total bank balances on deposit are entirely insured or collateralized by the Federal Deposit Insurance Corporation and the Bureau of Collateral Securities, Division of Treasury, State Department of Insurance. As required by the Resolution, the depository is restricted to be a bank, savings and loan association, or trust company of the United States, or a national banking association having capital stock, surplus and undivided earnings aggregating at least \$10 million.

In accordance with state laws and the Resolution, GRU is authorized to invest in obligations, which are unconditionally guaranteed by the United States of America or its agencies or instrumentalities, repurchase agreement obligations unconditionally guaranteed by the United States of America or its agencies, corporate indebtedness, direct and general obligations of any state of the United States of America or of any agency, instrumentality, or local governmental unit of any such state (provided such obligations are rated by a nationally recognized bond rating agency in either of its two highest rating categories), public housing bonds, and certain certificates of deposit. Investments in corporate indebtedness must be at a minimum acceptable level at time of purchase, (AA/Aa3/AA by Standard and Poor's, Moody's Investor Service, and/or Fitch Ratings respectively), and in one of the two highest rating categories of at least one other nationally recognized rating agency.

As of September 30, 2016, GRU had the following investments and maturities (in thousands).

	Fair Value	Maturities in Years		
		Less than 1	1-5	Over 5
<b>Investment type:</b>				
Commercial paper	\$ 119,680	\$ 119,680	\$ -	\$ -
Corporate bonds	26,559	3,012	23,547	-
U.S. agencies	61,115	-	55,113	6,002
U.S. bonds	8,664	-	8,664	-
<b>Total</b>	<b>\$ 216,018</b>	<b>\$ 122,692</b>	<b>\$ 87,324</b>	<b>\$ 6,002</b>

As of September 30, 2015, GRU had the following investments and maturities (in thousands).

	Fair Value	Maturities in Years		
		Less than 1	1-5	Over 5
<b>Investment type:</b>				
Commercial paper	\$ 113,245	\$ 113,245	\$ -	\$ -
Corporate bonds	15,892	-	15,892	-
U.S. agencies	67,169	-	67,169	-
U.S. bonds	4,531	-	4,531	-
<b>Total</b>	<b>\$ 200,837</b>	<b>\$ 113,245</b>	<b>\$ 87,592</b>	<b>\$ -</b>

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### 2. Deposits and Investments (continued)

Cash and investments are comprised of the following at September 30 (in thousands):

	2016	2015
Restricted assets	\$ 202,918	\$ 239,931
Internally designated cash	-	897
Current assets:		
Cash and investments	62,635	53,540
Total cash and investments	265,553	294,368
Less cash and cash equivalents	(49,536)	(81,596)
Less CR3 decommissioning reserve at FMPA	-	(11,622)
Less accrued interest receivable and accounts receivable	-	(313)
Total investments	\$ 216,017	\$ 200,837

#### Interest Rate Risk

GRU's investment policy limits its investments to securities with terms of ten years or less to reduce exposure to rising interest rates, unless investments are matched to meet specific cash flow needs. Additionally, the average portfolio term is not to exceed seven years. GRU's Resolution further limits investments of the Utility Plant Improvement Fund and Rate Stabilization Fund to no more than five years.

#### Credit Risk

GRU's investment policy and Resolution limits investments in state and local taxable or tax-exempt debt, corporate fixed income securities, and other corporate indebtedness to investments that are rated by a nationally recognized rating agency at a minimum acceptable level at time of purchase, (AA/Aa3/AA by Standard and Poor's, Moody's Investor Service, and/or Fitch Ratings respectively), and at least one nationally recognized rating agency in either of its two highest rating categories. As of September 30, 2016 and 2015, all of GRU's corporate holdings were rated Aa2 or better by Moody's Investor Service and/or AA+ or better by Standard and Poor's and/or AA+ or better by Fitch. As of September 30, 2016 and 2015, all of GRU's commercial paper investments were rated P-2 or better by Moody's Investor Service and/or A-2 or better by Standard and Poor's and/or F2 or better by Fitch.

#### Concentration of Credit Risk

State law does not limit the amount that may be invested in any one issuer. It does require, however, that investments be diversified to control risk of loss from over concentration of assets.

As of September 30, GRU had more than 5% of the investment portfolio invested with the following issuers:

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### 2. Deposits and Investments (concluded)

#### Concentration of Credit Risk (concluded)

Issuer:	Percent of Total Investments	
	2016	2015
Federal Home Loan Mortgage Corporation	2.32%	5.73%
New York Life	5.94%	6.39%
Federal Farm Credit Bank	7.88%	11.79%
Federal National Mortgage Association	13.25%	9.46%

### 3. Investment in The Energy Authority

GRU has an equity investment in The Energy Authority (TEA), a power marketing corporation comprised of eight municipal utilities as of September 30, 2016: MEAG Power, JEA (Florida), South Carolina Public Service Authority, Nebraska Public Power District, GRU, City Utilities of Springfield (Missouri), Public Utility District No. 1 of Cowlitz County (Washington), and American Municipal Power, Inc. (Ohio). TEA provides energy products and resource management services to equity members and non-members and allocates transaction savings and operating expenses to equity members pursuant to Settlement Procedures under the Operating Agreement.

In the Statement of Revenues, Expenses, and Changes in Net Position, GRU's sales to and purchases from TEA are recorded in sales and service charges and operations and maintenance expenses, respectively. Sales to TEA were \$400,000 and \$2.2 million, and purchases from TEA were \$20.0 million and \$8.2 million for the years ended September 30, 2016 and 2015, respectively.

GRU's equity interest was 5.6% for fiscal years 2016 and 2015, and accounted for using the equity method of accounting. As of September 30, 2016 and 2015, GRU's investment in TEA was \$2.1 million and \$2.6 million, respectively.

Through a combination of agreements, GRU guaranteed credit received by TEA for \$23.1 million and \$17 million as of September 30, 2016 and 2015, respectively. TEA evaluates its credit needs periodically and requests equity members to adjust their guarantees accordingly. The guarantee agreements are intended to provide credit support for TEA when entering into transactions on behalf of equity members. Such guarantees are within the scope of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, and would require the equity members to make payments to TEA's counterparties if TEA failed to deliver energy, capacity, or natural gas as required by contract, or if TEA failed to make payment for the purchases of such commodities. If guarantee payments are required, GRU has rights with other equity members that such payments be apportioned based on certain criteria.



# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

### 3. Investment in The Energy Authority (concluded)

The guarantees generally have indefinite terms; however, GRU can terminate its guarantee obligations by providing notice to counterparties and others, as required by the agreements. Such terminations would not pertain to any transactions TEA entered into prior to notice being given. As of September 30, 2016 and 2015, GRU had not recorded a liability related to these guarantees.

The table below contains unaudited condensed financial information for TEA for the nine months ended September 30 (in thousands):

	<u>2016</u>	<u>2015</u>
Condensed statement of operations:		
Total revenue	\$ 1,039,075	\$ 1,249,164
Total cost of sales and expense	<u>(1,008,613)</u>	<u>(1,207,623)</u>
Operating income	30,462	41,541
Nonoperating income (expense)	10	13
Change in net position	<u>\$ 30,472</u>	<u>\$ 41,554</u>
Condensed balance sheet:		
Assets:		
Current assets	128,527	142,339
Noncurrent assets	12,282	12,997
Total assets	<u>\$ 140,809</u>	<u>\$ 155,336</u>
Liabilities:		
Current liabilities	102,615	109,098
Noncurrent liabilities	346	184
Total liabilities	<u>102,961</u>	<u>109,282</u>
Total net position	37,848	46,054
Total liabilities and net position	<u>\$ 140,809</u>	<u>\$ 155,336</u>

GRU's accounts receivable due from TEA totaled approximately \$288,000 and \$150,000 for the years ended September 30, 2016 and 2015, respectively.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

### 4. Capital Assets

A summary of capital assets, changes in accumulated depreciation and amortization, and average depreciation rates for the years ended September 30, 2016 and 2015 follows (in thousands):

	Utility Plant in Service					Combined
	Treatment	Generation	Transmission, Distribution, and Collection	General	Construction Work in Process	
Balance, October 1, 2015	\$ 158,327	\$ 1,627,112	\$ 814,985	\$ 190,055	\$ 131,596	\$ 2,922,075
Additions	42,951	19,529	29,368	3,291	75,105	170,244
Less sales, retirements, and transfers	(570)	(6,262)	(3,498)	(1,825)	(97,009)	(109,164)
Balance, September 30, 2016	\$ 200,708	\$ 1,640,379	\$ 840,855	\$ 191,521	\$ 109,692	\$ 2,983,155
Accumulated depreciation, October 1, 2015	\$ 70,949	\$ 288,380	\$ 333,692	\$ 62,966	n/a	\$ 755,987
Depreciation expense	5,488	17,771	27,319	8,686	n/a	59,264
Capital lease	-	33,560	-	-	n/a	33,560
Less retirements/ adjustments	(520)	(3,913)	(4,506)	(1,646)	n/a	(10,585)
Accumulated depreciation, September 30, 2016	\$ 75,917	\$ 335,798	\$ 356,505	\$ 70,006	n/a	\$ 838,226
Capital assets, net	\$ 124,791	\$ 1,304,581	\$ 484,350	\$ 121,515	\$ 109,692	\$ 2,144,929
Average depreciation rate	3.06%	3.14%	3.30%	4.55%	n/a	3.28%

	Utility Plant in Service					Combined
	Treatment	Generation	Transmission, Distribution, and Collection	General	Construction Work in Process	
Balance, October 1, 2014	\$ 147,927	\$ 1,619,112	\$ 774,902	\$ 189,517	\$ 141,989	\$ 2,873,447
Additions	10,608	14,273	42,322	2,149	61,350	130,702
Less sales, retirements, and transfers	(208)	(6,273)	(2,239)	(1,611)	(71,743)	(82,074)
Balance, September 30, 2015	\$ 158,327	\$ 1,627,112	\$ 814,985	\$ 190,055	\$ 131,596	\$ 2,922,075
Accumulated depreciation, October 1, 2014	\$ 67,011	\$ 245,444	\$ 309,075	\$ 55,686	n/a	\$ 677,216
Depreciation expense	3,991	16,327	26,105	8,614	n/a	55,037
Capital lease	-	33,560	-	-	n/a	33,560
Less retirements/ adjustments	(53)	(6,951)	(1,488)	(1,334)	n/a	(9,826)
Accumulated depreciation, September 30, 2015	\$ 70,949	\$ 288,380	\$ 333,692	\$ 62,966	n/a	\$ 755,987
Capital assets, net	\$ 87,378	\$ 1,338,732	\$ 481,293	\$ 127,089	\$ 131,596	\$ 2,166,088
Average depreciation rate	2.61%	4.46%	3.28%	4.54%	n/a	3.92%

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **5. Jointly Owned Electric Plant**

GRU entered into a Participation Agreement in 1977 with Florida Power Corporation (FPC) which became Progress Energy, to purchase a 1.4079% undivided ownership interest, approximately 12.7 megawatts (MW) in Progress Energy's 860-MW nuclear powered electric generating plant called Crystal River Unit No. 3 (CR3). In July 2012, Progress Energy merged with and became a wholly owned subsidiary of Duke Energy. GRU does not exercise significant influence or control over the operating or financial policies of Duke Energy.

The Nuclear Regulatory Commission (NRC) requires utilities owning nuclear powered electric generating plants to provide financial assurance that funds would be sufficient and available when needed to pay the future decommissioning costs. In accordance with the NRC requirements, GRU established a decommissioning trust fund. GRU's carrying balance in this decommissioning trust fund at September 30, 2016 and September 30, 2015, including interest earnings, was approximately \$0 million and \$11.6 million, respectively.

GRU and Florida Municipal Power Agency (FMPA) entered into an agreement whereby FMPA would act as agent for GRU and other CR3 minority owner participants to coordinate the administration of the decommissioning trust funds. Contributions to this trust fund are not available to the City for any other purpose except for the decommissioning of CR3. Contributions were based on independent studies, which took into account the anticipated future decommissioning costs and anticipated investment returns. Future contribution amounts were based on updated cost estimates and trust fund earnings.

In September 2009, CR3 began an outage for normal refueling and maintenance as well as an uprate project to increase generating capability and to replace two steam generators. During preparations to replace steam generators, workers discovered a delamination (or separation) within the concrete at the periphery of the containment building. After reviewing all options to repair the unit, Duke Energy announced in February 2013 its intention to retire the CR3 nuclear power plant. Duke Energy expected that the decommissioning fund balances are sufficient to decommission the plant (including future investment growth of the funds).

During 2013, Duke Energy provided GRU with insurance proceeds of \$3.5 million from Duke Energy's settlement with its insurance provider Nuclear Electric Insurance, LTD (NEIL). GRU determined \$2.9 million of these insurance proceeds were settlement for damages related to the plant and reduced its net investment in CR3 by these amounts. The remaining \$600,000 of the \$3.5 million insurance proceeds received in 2013 was a result of entitlement from GRU participation as a wholesale purchaser of nuclear energy as part of a five-year Power Purchase Agreement for 50 megawatt with Progress Energy/Duke Energy, ending December 31, 2013. The remaining net investment of \$17.9 million in the CR3 plant and \$787,000 of nuclear fuel inventory was written off as an extraordinary item as of September 30, 2013.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **5. Jointly Owned Electric Plant (concluded)**

GRU, along with other CR3 minority owners, designated FMPA as its agent in negotiations with Duke Energy on various matters related to the retirement of CR3. FMPA negotiated a settlement with Duke Energy on behalf of itself and the other minority owners. The CR3 Settlement, Release, and Acquisition Agreement (settlement agreement) was approved by the City Commission on May 30, 2014, and agreed to and executed by all parties on September 26, 2014. The settlement agreement sets forth the terms and conditions and documents necessary to transfer all of the City's ownership interest in CR3 to Duke Energy along with the decommissioning trust funds. In return, the minority owners would receive certain cash settlements and Duke Energy would agree to be responsible for all costs and liabilities relating to CR3 including costs of decommissioning. CR3 operation and maintenance costs, which represents GRU's share of the expenses attributable to the operation of CR3, were discontinued as of October 1, 2013, and are no longer obligated to be paid in the future per the settlement agreement. The settlement agreement was approved by the NRC on May 29, 2015. GRU received a cash settlement in the amount of \$10.2 million and transferred the \$11.6 million decommissioning trust fund balance to Duke Energy at closing of the settlement agreement on October 30, 2015.

### **6. Capital Lease**

GRU executed a PPA with the Gainesville Renewable Energy Center (GREC). The plant, a 100 megawatt biomass-fired power production facility located in Alachua County, Florida, utilizes woody biomass comprised of urban wood waste, forest wood waste, and mill residue. The nature of these are further limited by Forest Sustainability Standards that are included as part of the PPA. The PPA requires that GREC provide available energy, delivered energy, and environmental attributes exclusively to GRU and began commercial operations on December 17, 2013. GRU is required to pay for all available energy from the plant at fixed prices, adjusted for liquidated damages and other penalties. GRU is also required to pay a variable operations and maintenance charge for all delivered energy, a fuel charge for all delivered energy, a shutdown charge as applicable and ad valorem taxes paid by GREC.

The PPA has been accounted for as a long-term capital lease for a term of 30 years with a capital lease asset and liability recorded. The capital lease asset was recorded at \$1 billion at September 30, 2016 and 2015. The total payments applicable to the lease were \$61.2 million for September 30, 2016 and 2015. The payments for fiscal year 2016 and 2015 included \$43.6 million and \$44.4 million, respectively, for interest expense included in fuel costs. The capital lease will be amortized over the life of the PPA. Amortization of \$33.6 million was recorded at September 30, 2016 and 2015.

The following lists the minimum payments due under the PPA as of September 30, 2016 (in thousands):

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

### 6. Capital Lease (concluded)

	<u>2016</u>
2017	\$ 61,216
2018	61,216
2019	61,216
2020	61,216
2021	61,216
2022-2026	306,081
2027-2031	306,081
2032-2036	306,081
2037-2041	306,081
2042-2044	135,434
<b>Total minimum lease payments</b>	<u>1,665,838</u>
<b>Less: Amounts representing interest</b>	<u>(706,159)</u>
<b>Net minimum lease payments</b>	<u>\$ 959,679</u>

If at any time GRU's senior unsecured debt rating is rated below a Standard & Poor's rating of A- or a Moody's rating of A3 (such rating levels to be equitably adjusted if either rating agency were in the future to change its rating standards), GRU is required to pay or provide to GREC a security deposit equal to \$40 million as security for GRU's performance of its obligations under the PPA. If required, such security shall be in the form of cash deposited in either an interest bearing escrow account mutually acceptable to GREC and GRU, an unconditional and irrevocable direct pay letter of credit in form and substance reasonably satisfactory to GREC, or a performance bond in form and substance reasonably satisfactory to GREC. As of September 30, 2016, GRU's credit ratings were in compliance with the performance security requirements.

A land lease was executed on September 28, 2009, between GRU and GREC for the land on which the biomass plant is located. The payment per year is \$100 for a term of 47 years on the condition that GREC provide dependable energy to GRU. If a condition occurs in which GREC does not provide dependable energy to GRU, the payment will be adjusted to the fair market value of the land at that time. Rental income of \$100 was received for the years ended September 30, 2016 and 2015, respectively.

### 7. Fuel and Purchased Gas Adjustment Levelization

Electric and natural gas customers are billed a monthly fuel and purchased gas adjustment charge based on a number of factors including fuel and fuel related costs. GRU establishes this fuel and purchased gas adjustment charge based on ordinances approved by the City Commission. A fuel and purchased gas adjustment levelization fund is utilized to stabilize the monthly impact of the fuel and purchased gas adjustment charge included in customer billings.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

### 7. Fuel and Purchased Gas Adjustment Levelization (concluded)

The following table represents total revenues and expenses associated with the fuel and purchased gas adjustment and the subsequent impact on the fuel and purchased gas levelization balance as of September 30, 2016 (in thousands):

	<b>Fuel Adjustment</b>	<b>Purchased Gas Adjustment</b>	<b>Total</b>
Revenues	\$ 151,804	\$ 6,805	\$ 158,609
Expenses	(155,825)	(6,752)	(162,577)
To (From) Levelization Fund	<u>\$ (4,021)</u>	<u>\$ 53</u>	<u>\$ (3,968)</u>
Levelization Fund Beginning Balance	\$ 16,923	\$ 1,877	\$ 18,800
To (From) Levelization Fund	(4,021)	53	(3,968)
Levelization Fund Ending Balance	<u>\$ 12,902</u>	<u>\$ 1,930</u>	<u>\$ 14,832</u>

The following table represents total revenues and expenses associated with the fuel and purchased gas adjustment and the subsequent impact on the fuel and purchased gas levelization balance as of September 30, 2015 (in thousands):

	<b>Fuel Adjustment</b>	<b>Purchased Gas Adjustment</b>	<b>Total</b>
Revenues	\$ 158,822	\$ 10,607	\$ 169,429
Expenses	(157,197)	(9,396)	(166,593)
To (From) Levelization Fund	<u>\$ 1,625</u>	<u>\$ 1,211</u>	<u>\$ 2,836</u>
Levelization Fund Beginning Balance	\$ 15,298	\$ 666	\$ 15,964
To (From) Levelization Fund	1,625	1,211	2,836
Levelization Fund Ending Balance	<u>\$ 16,923</u>	<u>\$ 1,877</u>	<u>\$ 18,800</u>

### 8. Long-Term Debt

**\$196,950,000 Utilities System Revenue Bonds, 2005 Series A** – 4.75% - 5.0%, dated November 16, 2005, mature on various dates through October 1, 2036, and were partially refunded as part of the 2012 Series A Utilities System Revenue Bond issuance. The 2005 Series A Bonds are subject to redemption at the option of the City on and after October 1, 2015, as a whole or in part at any time, at a redemption price of 100% of the principal amount, plus accrued interest to the date of redemption. The 2005 Series A Bonds were issued to pay a portion

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### 8. Long-Term Debt (continued)

#### **\$196,950,000 Utilities System Revenue Bonds, 2005 Series A – (concluded)**

of the cost of acquisition and construction of certain improvements to the City's utilities system and to refund the City's Utilities System Commercial Paper Notes, Series C. In March 2007, the 2007 Series A Bonds (\$139,505,000) were issued to advance-refund to the maturity dates a portion of the bonds maturing from October 1, 2030 to October 1, 2036. The proceeds related to the refunded bonds were deposited into an escrow account to refund the bonds on October 1, 2015, at 100% of par. In December 2014, the 2014 Series B Bonds (\$30,970,000) were issued to advance-refund \$12,725,000 for portions of bonds maturing from October 1, 2029, October 1, 2030, and October 1, 2036. The proceeds of the refunded bonds were deposited into an escrow account to refund the bonds on October 1, 2015.

**\$61,590,000 Utilities System Revenue Bonds, 2005 Series B (Federally Taxable) – 5.14%**, dated November 16, 2005, final maturity October 1, 2021. The 2005 Series B Bonds are subject to redemption at the option of the City, in whole or in part, on any date, at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or the sum of the present values of the remaining scheduled payments of principal and interest on the bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2005 Series B Bonds were issued to pay a portion of the cost of acquisition and construction of certain improvements to the City's utilities system and to refund the City's Utilities System Commercial Paper Notes, Series D originally issued in June 2000.

**\$55,135,000 Utilities System Revenue Bonds, 2005 Series C** – Variable interest rates based on market rates, 0.86% at September 30, 2016, dated November 16, 2005, final maturity October 1, 2026. The 2005 Series C Bonds are subject to redemption at the option of the City at a redemption price of 100% of the principal amount, plus accrued interest to the date of redemption. The 2005 Series C Bonds were issued to refund a portion of the City's Utilities System Revenue Bonds, 1996 Series A. A liquidity facility is provided by Helaba at 0.29% and expires November 24, 2020.

**\$53,305,000 Utilities System Revenue Bonds, 2006 Series A** – Variable interest rates based on market rates, 0.86% at September 30, 2016, dated July 6, 2006, final maturity October 1, 2026. The 2006 Series A Bonds are subject to redemption at the option of the City, in whole or in part, at a redemption price equal to 100% of the principal amount plus accrued interest to the date of redemption. The 2006 Series A Bonds were issued to pay a portion of the cost of acquisition and construction of certain improvements to the City's utilities system and to refund a portion of the City's Utilities System Revenue Bonds, 1996 Series A. The 2006 Series A Bonds created a net present value savings of over \$6,200,000, with yearly cash savings ranging from approximately \$371,000 to over \$890,000.

A liquidity facility is provided by Helaba at 0.29% and expires November 24, 2020.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### 8. Long-Term Debt (continued)

**\$139,505,000 Utilities System Revenue Bonds, 2007 Series A** – Variable interest rates based on market rates, 0.86% at September 30, 2016, dated July 6, 2006, final maturity October 1, 2036. The 2007 Series A Bonds are subject to redemption at the option of the City, in whole or in part, at a redemption price equal to 100% of the principal amount plus accrued interest to the date of redemption. The 2007 Series A Bonds were issued to refund a portion of the City's Utilities System Revenue Bonds, 2003 Series A and a portion of the City's Utilities System Revenue Bonds, 2005 Series A. The 2007 Series A Bonds created a net present value savings of over \$8,500,000, with yearly cash savings ranging from \$100,000 to \$500,000. A liquidity facility is provided by State Street Bank and Trust at 0.39% and expires March 1, 2018.

**\$105,000,000 Utilities System Revenue Bonds, 2008 Series A (Federally Taxable)** – 4.92% - 5.27%, dated February 13, 2008, final maturity October 1, 2020, and were partially refunded as part of the 2012 Series B Utilities System Revenue Bond issuances. The 2008 Series A Bonds are subject to redemption prior to maturity at the election of the City in whole or in part, at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or the sum of the present values of the remaining scheduled payments of principal and interest on the bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2008 Series A Bonds were issued to pay costs of acquisition and construction of the City's utilities system. In December 2014, the 2014 Series B Bonds (\$30,970,000) were issued to redeem \$19,915,000 for portions of bonds maturing from October 1, 2015 thru October 1, 2020.

**\$90,000,000 Utilities System Revenue Bonds, 2008 Series B** – Variable interest rates based on market rates, 0.85% at September 30, 2016, dated February 13, 2008, final maturity October 1, 2038. The 2008 Series B Bonds are subject to redemption prior to maturity at the election of the City in whole or in part, at a redemption price of 100% of the principal amount plus accrued interest to the date of redemption. The 2008 Series B Bonds were issued to pay costs of acquisition and construction of the City's utilities system. A liquidity facility is provided by Bank of Montreal at 0.27% and expires July 7, 2017. The full amount of the outstanding bonds of \$90 million has been reclassified to utilities system revenue bonds – current portion as of September 30, 2016. The liquidity facility will be renewed or replaced during fiscal year 2017.

**\$24,190,000 Utilities System Revenue Bonds, 2009 Series A (Federally Taxable)** – 3.59%, dated September 16, 2009, final maturity October 1, 2015. The 2009 Series A Bonds are subject to redemption prior to maturity at the election of the City at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or the sum of the present values of the remaining scheduled payments of principal and interest on the bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2009 Series A Bonds were issued to pay costs of acquisition and construction of the City's utilities system.



# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### 8. Long-Term Debt (continued)

**\$156,900,000 Utilities System Revenue Bonds, 2009 Series B – Issuer Subsidy – Build America Bonds (Federally Taxable)** – 4.11% - 5.65%, dated September 16, 2009, final maturity October 1, 2039. The 2009 Series B Bonds are subject to redemption prior to maturity at the election of the City at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or the sum of the present values of the remaining scheduled payments of principal and interest on the bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2009 Series B Bonds were issued to pay costs of acquisition and construction of the City's utilities system.

**\$12,930,000 Utilities System Revenue Bonds, 2010 Series A (Federally Taxable)** – 5.87%, dated November 1, 2010, final maturity October 1, 2030. The 2010 Series A Bonds are subject to redemption prior to maturity at the election of the City at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or the sum of the present values of the remaining scheduled payments of principal and interest on the bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2010 Series A Bonds were issued to (a) pay costs of acquisition and construction of the City's utilities system, (b) to provide for the payment of certain capitalized interest on the Taxable 2010 Series A Bonds, and (c) to pay the costs of issuance of the Taxable 2010 Series A Bonds.

**\$132,445,000 Utilities System Revenue Bonds, 2010 Series B – Issuer Subsidy – Build America Bonds (Federally Taxable)** – 6.02%, dated November 1, 2010, final maturity October 1, 2040. The 2010 Series B Bonds are subject to redemption prior to maturity at the election of the City at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or the sum of the present values of the remaining scheduled payments of principal and interest on the bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2010 Series B Bonds were issued to (a) pay costs of acquisition and construction of the City's utilities system, (b) to provide for the payment of certain capitalized interest on the Taxable 2010 Series B Bonds, and (c) to pay the costs of issuance of the Taxable 2010 Series B Bonds.

**\$16,365,000 Utilities System Revenue Bonds, 2010 Series C** – 5.00% - 5.25%, dated November 1, 2010, final maturity October 1, 2034. The 2010 Series C Bonds are subject to redemption prior to maturity at the election of the City at a redemption price so specified. The 2010 Series C Bonds were issued to (a) refund \$5,860,000 in aggregate principal amount of the 2003 Series A Bonds, and (b) to provide funds to refund \$10,505,000 in aggregate principal amount of the 2008 Series A Bonds.

**\$81,860,000 Utilities System Revenue Bonds, 2012 Series A** – 2.50% - 5.00%, dated August 1, 2012, final maturity October 1, 2028. The 2012 Series A Bonds were issued to (a) provide funds to refund \$1,605,000 in aggregate principal amount of the 2003 Series A Bonds, (b) to provide funds to refund \$78,690,000 in aggregate principal amount of the 2005 Series A Bonds, and (c) to pay cost of issuance of the 2012 Series A Bonds. These bonds mature at various dates from October 1, 2021 to October 1, 2028. Those bonds maturing on and after October 1, 2023, are subject to redemption prior to maturity, at a redemption price so specified.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### 8. Long-Term Debt (continued)

**\$100,470,000 Utilities System Revenue Bonds, 2012 Series B** - Variable interest rates based on market rates, 0.86% at September 30, 2016, dated August 1, 2012, final maturity October 1, 2042. The 2012 Series B Bonds were issued to (a) refund \$31,560,000 in aggregate principal amount of the 2005 Series B Bonds, (b) provide funds to refund \$17,570,000 in aggregate principal amount of the 2005 Series C Bonds, (c) provide funds to refund \$25,930,000 in aggregate principal amount of the 2006 Series A Bonds, (d) provide funds to refund \$14,405,000 in aggregate principal amount of the 2008 Series A Bonds, and (e) pay costs of issuance of the 2012 Series B Bonds. These bonds mature at various dates through October 1, 2042. The 2012 Series B Bonds are subject to redemption prior to maturity, at a redemption price so specified. A liquidity facility is provided by Sumitomo Mitsui Banking Corporation (SMBC) at 0.43% and expires on January 12, 2018.

**\$37,980,000 Utilities System Revenue Bonds, 2014 Series A** – 2.50% - 5.00%, dated December 19, 2014, with final maturity October 1, 2044. The 2014 Series A Bonds were issued to (a) provide funds for the payment of the cost and acquisition and construction of certain improvements to the System, and (b) pay costs of issuance of the 2014 Series A Bonds. These bonds mature at various dates beginning October 1, 2015, and from October 1, 2021 to October 1, 2034, October 1, 2039, and October 1, 2044. The bonds maturing prior to October 1, 2024 are not subject to redemption prior to maturity. The bonds maturing on and after October 1, 2025 are subject to redemption prior to maturity at the option of GRU on and after October 1, 2024, as whole or in part at any time, at a redemption price plus interest so specified.

**\$30,970,000 Utilities System Revenue Bonds, 2014 Series B** – 3.00% - 5.00%, dated December 19, 2014 with final maturity October 1, 2036. The 2014 Series B Bonds were issued to (a) provide funds to refund \$12,725,000 in aggregate principal amount of a portion of the 2005 Series A Bonds; (b) provide funds to refund \$19,915,000 in aggregate principal amount of a portion of the 2008 Series A Bonds; and (c) pay costs of issuance of the 2014 Series B Bonds. These bonds mature at various dates beginning October 1, 2015 through October 1, 2020, from October 1, 2029 to October 1, 2030, and October 1, 2036. The bonds maturing prior to October 1, 2024 are not subject to redemption prior to maturity. The bonds maturing on and after October 1, 2025 are subject to redemption prior to maturity at the option of GRU on and after October 1, 2024, as whole or in part at any time, at a redemption price plus interest so specified. The 2014 Series B Bonds created a net present value savings of \$1,700,000, with yearly cash savings ranging from approximately \$11,000 to over \$600,000.

**\$85,000,000 Utilities System Commercial Paper Notes, Series C Notes** - These tax-exempt notes are subordinated debt and may continue to be issued to refinance maturing Series C Notes or provide for other costs. Liquidity support for the Series C Notes is provided under a long-term credit agreement effective November 30, 2015, with Bank of America, NA at 0.40% and is set to expire November 30, 2018. The obligation of the bank may be substituted by another bank that meets certain credit standards and which is approved by the Utility and the Agent. Under terms of the agreement, the Utility may borrow up to \$85,000,000 with same day availability ending on the termination date, as defined in the agreement. Interest is at a variable market rate which was 0.72% at September 30, 2016. Series C Notes of \$51,500,000 are outstanding as of September 30, 2016.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

### 8. Long-Term Debt (continued)

**\$25,000,000 Utilities System Commercial Paper Notes, Series D Notes** - In June 2000, a Utilities System Commercial Paper Note Program, Series D (taxable) was established in a principal amount not to exceed \$25,000,000. On December 16, 2014, GRU issued \$8,000,000 of Series D Notes to provide funds for the cost of acquisition and construction of certain improvements to the telecommunications system. Interest is at a variable market rate of 0.70% at September 30, 2016. Series D Notes of \$8,000,000 are outstanding as of September 30, 2016. These taxable notes are subordinated debt. Liquidity support for the Series D Notes is provided under a long-term credit agreement effective August 28, 2014, with State Street Bank and Trust Company at 0.33% and is set to expire August 28, 2017. The full amount of the outstanding notes of \$8 million has been reclassified to utilities system revenue bonds – current portion. Management intends to renew or replace the credit agreement in fiscal year 2017.

#### Debt Service Requirements for Long-Term Debt

Annual debt service requirements to maturity for long-term debt are as follows (in thousands):

Year Ending September 30	Principal	Interest	Total Debt Service Requirements
2017	\$ 121,135	\$ 24,182	\$ 145,317
2018	24,020	23,407	47,427
2019	24,885	22,546	47,431
2020	25,935	21,568	47,503
2021	27,055	20,570	47,625
2022–2026	115,125	91,568	206,693
2027–2031	159,495	71,158	230,653
2032–2036	190,495	50,686	241,181
2037–2041	217,985	24,478	242,463
2042-2045	42,445	1,267	43,712
	<u>\$ 948,575</u>	<u>\$ 351,430</u>	<u>\$ 1,300,005</u>

See Note 9 Hedging Activities for additional debt service requirements for interest rate swaps.

The interest rates used in this table are per GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, which requires the rate used in the calculations be that in effect as of September 30, 2016. Interest rates on variable-rate long-term debt were valued to be equal to 0.87% for the 2005 Series C Bonds, 0.86% for the 2006 Series A Bonds, 0.86% for the 2007 Series A Bonds, 0.85% for the 2008 Series B Bonds, 0.86% for the 2012 Series B Bonds, 0.72% for the Commercial Paper Notes, Series C, and 0.70% for the Commercial Paper Notes, Series D.

The 2009 Series B and 2010 Series B Bonds receive a federal interest subsidy of 32.6% of the annual interest expense and are assumed to remain at said rate for the duration of the bonds. The subsidy is recorded as non-operating revenue on the Statements of Revenues, Expenses, and Changes in Net Position.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

### 8. Long-Term Debt (continued)

For GRU's utilities system variable rate demand obligations (VRDO), support is provided in connection with tenders for purchase with various liquidity providers pursuant to standby bond purchase agreements (SBPA) or credit agreements relating to that series of obligation. The purchase price of the obligations tendered or deemed tendered for purchase is payable solely from the proceeds of the remarketing thereof and moneys drawn under the applicable SBPA or credit agreement. The current stated termination dates of the SBPA and credit agreements range from July 7, 2017 to November 24, 2020. Each of the SBPA and credit agreement termination dates may be extended. At September 30, 2016, there were no outstanding draws under the SBPA.

GRU has entered into revolving credit agreements with commercial banks to provide liquidity support for its commercial paper notes. If funds are not available to pay the principal of any maturing commercial paper notes during the term of the credit agreement, GRU is entitled to make a borrowing under the credit agreement. The termination dates of the credit agreements as of September 30, 2016, are August 28, 2017, and November 30, 2018. The credit agreement supporting the tax-exempt Commercial Paper Notes, Series C had no outstanding draws as of September 30, 2016 and 2015. The credit agreement supporting the taxable Commercial Paper Notes, Series D had no outstanding draws as of September 30, 2016 and 2015.

The balance outstanding at September 30, 2016 and 2015, for defeased bonds was \$0 million and \$201.3 million, respectively.

### Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended September 30, 2016, was as follows (in thousands):

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Utilities system revenue bonds	\$ 905,880	\$ -	\$ (16,805)	\$ 889,075	\$ 107,535
Add: Issuance premiums	19,078	-	(1,087)	17,991	1,087
Total bonds payable	924,958	-	(17,892)	907,066	108,622
Commercial paper	64,900	-	(5,400)	59,500	13,600
Compensated absences	4,831	725	(916)	4,640	916
	<u>\$ 994,689</u>	<u>\$ 725</u>	<u>\$ (24,208)</u>	<u>\$ 971,206</u>	<u>\$ 123,138</u>

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### 8. Long-Term Debt (concluded)

#### Changes in Long-Term Liabilities (concluded)

Long-term liabilities activity for the year ended September 30, 2015, was as follows (in thousands):

	<b>Beginning</b>			<b>Ending</b>	<b>Due Within</b>
	<b>Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance</b>	<b>One Year</b>
Utilities system revenue bonds	\$ 885,950	\$ 68,950	\$ (49,020)	\$ 905,880	\$ 16,805
Add: Issuance premiums	10,230	20,032	(11,184)	19,078	1,088
Total bonds payable	896,180	88,982	(60,204)	924,958	17,893
Commercial paper	62,000	8,000	(5,100)	64,900	5,400
Compensated absences	4,292	1,684	(1,145)	4,831	1,145
	<u>\$ 962,472</u>	<u>\$ 98,666</u>	<u>\$ (66,449)</u>	<u>\$ 994,689</u>	<u>\$ 24,438</u>

#### Interest Rate Swaps

GRU is a party to certain interest rate swap agreements. GRU applies hedge accounting where applicable. See Note 9 Hedging Activities for additional information.

### 9. Hedging Activities

#### Interest Rate Hedges

Under GRU's interest rate swap programs, GRU either pays a variable rate of interest, which is based on various indices, and receives a fixed rate of interest for a specific period of time (unless earlier terminated), or GRU pays a fixed rate of interest and receives a variable rate of interest, which is based on various indices for a specified period of time (unless earlier terminated). These indices are affected by changes in the market. The net amounts received or paid under the swap agreements are recorded as an adjustment to interest on debt in the statements of revenues, expenses, and changes in net position. No money is initially exchanged when GRU enters into a new interest rate swap transaction. Following is a disclosure of key aspects of the agreements.

#### Terms, Fair Values, and Counterparty Credit Ratings

The terms, fair values, and counterparty credit ratings of the outstanding swaps as of September 30, 2016, were as follows (in thousands):

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

**9. Hedging Activities (continued)**

**Terms, Fair Values, and Counterparty Credit Ratings (concluded)**

<b>Associated Bond Issue</b>	<b>2008CP*</b>	<b>2005B*</b>	<b>2005C*</b>	<b>2006A*</b>
Notional amounts	\$ 11,500	\$ 38,740	\$ 35,300	\$ 34,160
Effective date	7/3/2002	11/16/2005	11/16/2005	7/6/2006
Fixed payer rate	4.100%	SIFMA	3.200%	3.224%
Variable receiver rate	SIFMA	77.14% of 1 MO LIBOR	60.36% of 10 YR LIBOR	68% of 10 YR LIBOR – 0.3635%
Fair value	\$ (425)	\$ (176)	\$ (2,797)	\$ (3,026)
Termination date	10/1/2017	10/1/2021	10/1/2026	10/1/2026
Counterparty credit rating	Baa1/BBB+/A	Aa2/AA-	Aa3/A+/AA-	Aa2/AA-

<b>Associated Bond Issue</b>		<b>2008B*</b>	<b>2008B*</b>	<b>2007A*</b>
Notional amounts		\$ 58,500	\$ 31,500	\$ 137,240
Effective date		2/13/2008	2/13/2008	3/1/2007
Fixed payer rate		4.229%	4.229%	3.944%
Variable receiver rate		SIFMA	SIFMA	SIFMA
Fair value		\$ (21,074)	\$ (11,358)	\$ (48,324)
Termination date		10/1/2038	10/1/2038	10/1/2036
Counterparty credit rating		Aa3/A+/AA-	Aa3/A+/AA-	Aa2/AA-

\* See Basis Risk section below.

**Fair Value**

All of the swap agreements had a negative fair value as of September 30, 2016. Due to the low interest rate environment, as compared to the period when the swaps were entered into, the fixed payer rates currently exceed the variable receiver rates (in thousands):

	<b>Fair Value of Interest Rate Swaps at September 30, 2016</b>	<b>Changes in Fair Value</b>	<b>Changes in Deferred (Inflow) Outflow</b>	<b>Changes in Regulatory (Assets) Liability for Ineffective Instruments</b>
2008CP	\$ (425)	\$ 586	\$ (586)	\$ -
2005B	(176)	(370)	-	370
2005C	(2,797)	(153)	-	153
2006A	(3,026)	(171)	-	171
2008B	(21,074)	(2,063)	2,063	-
2008B	(11,358)	(1,114)	1,114	-
2007A	(48,324)	(6,853)	6,853	-
	<u>\$ (87,180)</u>	<u>\$ (10,138)</u>	<u>\$ 9,444</u>	<u>\$ 694</u>

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

### 9. Hedging Activities (continued)

#### Fair Value (concluded)

Excluding the basis swap, six of the swap agreements had a negative fair value as of September 30, 2015. Due to the low interest rate environment, as compared to the period when the swaps were entered into, the fixed payer rates exceeded the variable receiver rates (in thousands):

	Fair Value of Interest Rate Swaps at September 30, 2015	Changes in Fair Value	Changes in Deferred (Inflow) Outflow	Changes in Regulatory (Assets) Liability for Ineffective Instruments
2008CP	\$ (1,011)	\$ 639	\$ (639)	\$ -
2005B	194	118	-	(118)
2005C	(2,644)	(371)	-	371
2006A	(2,855)	(407)	-	407
2008B	(19,012)	(5,242)	5,242	-
2008B	(10,243)	(2,827)	2,827	-
2007A	(41,471)	(13,849)	13,849	-
	<u>\$ (77,042)</u>	<u>\$ (21,939)</u>	<u>\$ 21,279</u>	<u>\$ 660</u>

#### Interest Rate Swap Payments

Debt service requirements on the interest rate swaps using interest rates in effect at September 30, 2016, would be as follows (in thousands):

2017	\$ 9,157
2018	8,696
2019	8,421
2020	8,188
2021	7,904
2022–2026	35,032
2027–2031	26,686
2032–2036	12,016
2037	522
	<u>\$ 116,622</u>

#### Credit Risk

As of September 30, 2016, although fair value of the interest rate swaps was negative, GRU is not subject to credit risk. To mitigate the potential for credit risk, GRU has negotiated additional termination event and collateralization requirements in the event of a ratings downgrade. Failure to deliver the Collateral Agreement to GRU as negotiated and detailed in the Schedule to the International Swaps and Derivative Agreements (ISDA) master agreement for each counterparty would constitute an event of default with respect to that counterparty.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **9. Hedging Activities (continued)**

#### **Basis Risk**

The swaps expose the City to basis risk:

- The 2005 Series B Swap is exposed to basis risk through the potential mismatch of 77.14% of one-month LIBOR and the SIFMA rate. As a result, savings may not be realized. As of September 30, 2016, the one-month LIBOR rate was 0.53%, and SIFMA rate was at 0.84%, which places the SIFMA at approximately 158.19% of one-month LIBOR at that date.
- The 2005 Series C Swap is exposed to basis risk through the potential mismatch of 60.36% of 10-year LIBOR and the variable 31-day rollover rate. As a result, savings may not be realized. As of September 30, 2016, the 10-year LIBOR rate was at 1.44%.
- The 2006 Series A Swap is exposed to basis risk through the potential mismatch of 68% of 10-year LIBOR less 0.36% and the variable 31-day rollover rate. As a result, savings may not be realized.
- The 2007 Series A and the 2008 Series B Swaps are exposed to the difference between SIFMA and the variable 31-day rollover rate.
- The Commercial Paper Series C Notes Swap (formerly the 2002 Series A Swap) is exposed to the difference between the weekly SIFMA index and CP maturity rate of less than 90 days based on current market conditions. As a result, savings may not be realized.

#### **Termination Risk**

The swap agreement will be terminated at any time if certain events occur that result in one party not performing in accordance with the agreement. The swap can be terminated due to illegality, a credit event upon merger, an event of default, or if credit ratings fall below established levels.

#### **Interest Rate Risk**

This risk is associated with the changes in interest rates that will adversely affect the fair values of GRU's swaps and derivatives. GRU mitigates this risk by actively reviewing and negotiating its swap agreements.

#### **Rollover Risk**

GRU is exposed to this risk when its interest rate swap agreements mature or terminate prior to the maturity of the hedged debt. When the counterparty to the interest rate swap agreements chooses to terminate early, GRU will be re-exposed to the rollover risk. Currently, there is no early termination option being exercised by any of GRU's interest rate swap counterparties.



# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

### 9. Hedging Activities (concluded)

#### Market Access Risk

This risk is associated with the event that GRU will not be able to enter credit markets for interest rate swap agreements or that the credit market becomes more costly. GRU maintains a strong credit rating of Aa2 from Moody's, AA- from Standard and Poor's, and AA- from Fitch. Currently GRU has not encountered any credit market barriers.

#### Effectiveness

Of the interest rate swap agreements, four have been determined to be effective, while three have been deemed ineffective as of September 30, 2016. The ineffective portion related to interest rate swap agreements is recorded as a regulatory asset in the amount of \$6 million and \$5.3 million as of September 30, 2016 and 2015, respectively.

Fair value changes of \$10.1 million and \$21.9 million have been recorded for interest rate swap agreements in accumulated decrease in fair value of hedging derivatives at September 30, 2016 and 2015, respectively. There were no realized gains or losses related to interest rate swaps as of September 30, 2016 or 2015.

#### Fuel Hedges

GRU utilizes commodity price swap contracts to hedge the effects of fluctuations in the prices for natural gas. These transactions meet the requirements of GASB Statement No. 53. Realized losses related to gas hedging positions were recorded as an addition of fuel costs of \$3.8 million and \$2.3 million for September 30, 2016 and 2015, respectively.

Unrealized gains and losses related to gas hedging agreements are deferred in a regulatory account and recognized in earnings as fuel costs are incurred. All fuel hedges have been determined to be effective.

The information below provides a summary of results (in thousands):

	<b>Fair Value of Cash Flow Hedges at September 30, 2016</b>	<b>Changes in Fair Value</b>	<b>Deferred (Inflows)/ Outflows Resources</b>	<b>Notional Amount (MMBTUs)</b>
Natural gas	\$ (181)	\$ 2,137	\$ (201)	\$ 605

	<b>Fair Value of Cash Flow Hedges at September 30, 2015</b>	<b>Changes in Fair Value</b>	<b>Deferred (Inflows)/ Outflows Resources</b>	<b>Notional Amount (MMBTUs)</b>
Natural gas	\$ (2,318)	\$ (2,692)	\$ (2,063)	\$ 2,550

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### 10. Fair Value Measurement

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

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

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

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. U.S. Treasury securities are examples of Level 1 inputs.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. U.S. agencies, corporate bonds, and financial hedges are examples of Level 2 inputs.
- Level 3 inputs are unobservable inputs that reflect GRU's own assumptions about factors that market participants would use in pricing the asset or liability (including assumptions about risk).

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

- U.S. Treasury securities are valued using quoted market prices (Level 1 inputs).
- Investments in debt securities are valued using Level 2 measurements because the valuations use interest rate curves and credit spreads applied to the terms of the debt instrument (maturity and coupon interest rate) and consider the counterparty credit rating.
- Commodity derivatives, such as futures, swaps and options, which are ultimately settled using prices at locations quoted through clearinghouses are valued using level 1 inputs.
- Other hedging derivatives, such as swaps settled using prices at locations other than those quoted through clearinghouses and options with strike prices not identically quoted through a clearinghouse, are valued using Level 2 inputs. For these instruments, fair value is based on pricing algorithms using observable market quotes.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

### 10. Fair Value Measurement (continued)

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Utility's assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the valuation of fair value assets and liabilities and their place within the fair value hierarchy levels. GRU's fair value measurements are performed on a recurring basis. The following table presents fair value balances and their levels within the fair value hierarchy as of September 30, 2016 (in thousands):

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
<b>Fair value investments</b>				
U.S. Treasuries	\$ 8,664	\$ -	\$ -	\$ 8,664
U.S. Agencies:				
Federal Home Loan Mortgage Corp	-	4,953	-	4,953
Federal National Mortgage Assn	-	28,578	-	28,578
Federal Home Loan Bank	-	10,590	-	10,590
Federal Farm Credit Bank	-	16,994	-	16,994
Corporate bonds:				
Massmutual Global Funding	-	5,024	-	5,024
Guardian Life	-	5,549	-	5,549
New York Life	-	12,974	-	12,974
New York Life Global	-	3,012	-	3,012
<b>Total fair value investments</b>	<b>\$ 8,664</b>	<b>\$ 87,674</b>	<b>\$ -</b>	<b>\$ 96,338</b>
<b>Liabilities</b>				
<b>Financial instruments</b>				
Ineffective interest rate swaps	\$ -	\$ (5,999)	\$ -	\$ (5,999)
<b>Total financial instruments</b>	<b>\$ -</b>	<b>\$ (5,999)</b>	<b>\$ -</b>	<b>\$ (5,999)</b>

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

### 10. Fair Value Measurement (concluded)

Fair value balances and their levels within the fair value hierarchy as of September 30, 2015, are represented in the following table (in thousands):

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
<b>Fair value investments</b>				
U.S. Treasuries	\$ 4,531	\$ -	\$ -	\$ 4,531
U.S. Agencies:				
Federal Agricultural Mortgage Corp	-	3,012	-	3,012
Federal Home Loan Mortgage Corp	-	11,504	-	11,504
Federal National Mortgage Assn	-	18,969	-	18,969
Federal Home Loan Bank		9,976	-	9,976
Federal Farm Credit Bank		23,708	-	23,708
Corporate bonds:				
New York Life		12,871	-	12,871
New York Life Global		3,021	-	3,021
<b>Total fair value investments</b>	<b>\$ 4,531</b>	<b>\$ 83,061</b>	<b>\$ -</b>	<b>\$ 87,592</b>
<b>Liabilities</b>				
<b>Financial instruments</b>				
Ineffective interest rate swaps	\$ -	\$ (5,306)	\$ -	\$ (5,306)
<b>Total financial instruments</b>	<b>\$ -</b>	<b>\$ (5,306)</b>	<b>\$ -</b>	<b>\$ (5,306)</b>

### 11. Restricted Net Position

Certain assets are restricted by the Resolution and other external requirements as follows (in thousands):

	2016	2015
<b>Restricted net position:</b>		
Debt service	\$ 23,135	\$ 22,205
Utility plant improvement	58,792	55,023
Other	259	199
<b>Restricted net position</b>	<b>\$ 82,186</b>	<b>\$ 77,427</b>

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### 12. Lease Revenue

GRU leases generators, land, and communication tower antenna space, among other items.

Future minimum rental revenue for various operating leases (in thousands):

<u>September 30,</u>	<u>Revenue</u>
2017	\$ 1,161
2018	1,157
2019	1,072
2020	1,011
2021	923
2022-2026	3,647
2027-2031	2,121
Thereafter	652
	<u>\$ 11,746</u>

### 13. Transfer to City of Gainesville General Fund

GRU transfers monies monthly to the City's General Fund that are historically based on a pre-defined formula that predominantly tied the transfer directly to the utility's revenue generation. The transfer to the General Fund may be made only to the extent such monies are not necessary to pay operating and maintenance expenses and to pay debt service on the outstanding bonds and subordinated debt or to make other necessary transfers under the Resolution.

Effective for fiscal year 2015, the City Commission approved a change to the transfer formula. This new transfer formula contains the following components:

- A new base equal to the fiscal year 2014 General Fund Transfer level that would have been produced under the formula methodology that was in place from fiscal years 2001 through 2010.
- Growth of the base by 1.5% per year for fiscal years 2016 through 2019.
- Reduction of this amount by an amount equal to the property tax revenue that accrues to the City of Gainesville related to the GREC Biomass Facility.
- In addition to the components above, a further one-time reduction of \$250,000 for fiscal year 2015 only.

For the years ended September 30, 2016 and 2015, the transfer was \$35 million and \$34.9 million, respectively.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **14. Commitments and Contingencies**

#### **General**

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

The emerging role of municipalities as telecommunications providers pursuant to the 1996 Federal Telecommunications Act has resulted in a number of state-level legislative initiatives across the nation to curtail this activity. In Florida, this issue culminated in the passage, in 2005, of legislation codified in Section 350.81, Florida Statutes (Section 350.81) that defined the conditions under which municipalities are allowed to provide retail telecommunications services. Although GRU has special status as a grandfathered entity under this legislation, the provision of certain additional retail telecommunications services by the Utility would activate certain of the requirements of Section 350.81. Management 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**

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

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **14. Commitments and Contingencies (continued)**

#### **Environmental and Other Natural Resource Regulations (concluded)**

Increasing concerns about climate change and the effects of greenhouse gases (GHG) on the environment have resulted in EPA finalizing on August 3, 2015 carbon regulations for existing power plants. Since the final rules for existing units were recently issued by the EPA, an in-depth analysis has not yet been completed. Therefore, management is unable to predict what impact such regulations will have on GRU.

#### **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 GRU's operations are: (1) the acid rain program, which requires nationwide reductions of SO<sub>2</sub> and NO<sub>x</sub> from existing and new fossil-fueled electric generating plants, (2) provisions related to toxic or hazardous pollutants, (3) requirements to address regional haze, and (4) requirements to address effects on ambient air quality standards from transport of fine particulate matter and ozone (Cross State Air Pollution Rule).

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

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

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

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **14. Commitments and Contingencies (continued)**

#### **Air Emissions (continued)**

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

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

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

On July 28, 2015, the D.C. Circuit ruled that Florida's allowance budget is invalid and remanded CSAPR to EPA. On October 26, 2016 EPA published in the *Federal Register*, at 81 Fed. Reg. 74504, an update to the Cross-State Air Pollution Rule ("CSAPR") to address the 2008 ozone National Ambient Air Quality Standards. For three states (North Carolina, South Carolina, and Florida), EPA is removing the states from the CSAPR ozone season NOX trading program because modeling for the Final Rule indicates that these states do not contribute significantly to ozone air quality problems in downwind states under the 2008 ozone NAAQS. Therefore, GRU will not have to meet any ozone season limits in 2017 and probably 2018.

##### ***Mercury and Air Toxics Standards (MATS)***

On December 16, 2011, the EPA promulgated a rule to reduce emissions of toxic air pollutants from power plants. Specifically, these mercury and air toxics standards or MATS for power plants will reduce emissions from new and existing coal- and oil-fired electric utility steam generating



# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **14. Commitments and Contingencies (continued)**

#### **Air Emissions (continued)**

##### ***Mercury and Air Toxics Standards (MATS) (continued)***

units (EGUs). The EPA also signed revisions to the new source performance standards for fossil fuel-fired EGUs. Such revisions revised the standards that new coal- and oil-fired power plants must meet for particulate matter, SO<sub>2</sub> and NO<sub>x</sub>. On November 25, 2014, the United States Supreme Court accepted certiorari to hear challenges to the mercury admission rules.

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

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

On May 6, 2016, EPA filed a brief urging the U.S. Supreme Court to deny a *writ of certiorari* filed by 20 states requesting that the Court review and reverse a decision by the U.S. Court of Appeals for the D.C. Circuit to remand EPA's Mercury and Air Toxics Standards ("MATS") rule to the Agency without vacating the rule. According to EPA's brief, the Supreme Court should deny review of whether the MATS rule should have been vacated while EPA made its "appropriate and necessary" finding because the issue is moot now that EPA has issued the finding. Additionally, EPA argues that the Clean Air Act ("CAA"), not the Administrative Procedure Act, governs whether the MATS rule should have been vacated and the CAA does not mandate vacatur of a rule on

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **14. Commitments and Contingencies (continued)**

#### **Air Emissions (continued)**

##### ***Mercury and Air Toxics Standards (MATS) (continued)***

remand. Rather, the CAA gives a court discretion on whether to vacate a remanded rule based on the circumstances. Finally, EPA asserts that the D.C. Circuit was correct in not vacating the MATS rule on remand because EPA could quickly remedy the legal deficiency and vacating the rule would have been harmful to the public because it would have allowed an increase in emissions of HAPs from EGUs.

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

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

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

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

- EPA Brief: January 19, 2017
- Brief(s) of Respondent-Intervenors: February 10, 2017
- Reply brief(s) of State and Industry Petitioners: February 24, 2017
- Deferred Appendix: March 10, 2016  
Briefs of State and Industry Petitioners: November 18, 2016
- Final Briefs: March 24, 2017

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **14. Commitments and Contingencies (continued)**

#### **Air Emissions (concluded)**

##### ***Mercury and Air Toxics Standards (MATS) (concluded)***

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

#### **Effluent Limitation Guidelines**

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

On September 30, 2015, EPA issued a final rule addressing ELGs for power plants under the Clean Water Act.

The final rule establishes Best Available Technology Economically Achievable ("BAT"), New Source Performance Standards ("NSPS"), Pretreatment Standards for Existing Sources ("PSES"), and Pretreatment Standards for New Sources ("PSNS") that may apply to discharges of six waste streams: flue gas desulfurization ("FGD") wastewater, fly ash transport water, bottom ash transport water, FGMC wastewater, gasification wastewater, and combustion residual leachate.

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

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

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **14. Commitments and Contingencies (continued)**

#### **Regional Haze**

On June 15, 2005, the EPA issued the Clean Air Visibility Rule, amending its 1999 regional haze rule, which had established timelines for states to improve visibility in national parks and wilderness areas throughout the United States. Under the amended rule, certain types of older sources may be required to install best available retrofit technology (BART). Some of the effects of the amended rule could be requirements for newer and cleaner technologies and additional controls for particulate matter, SO<sub>2</sub> and NO<sub>x</sub> emissions from utility sources. The states were to develop their regional haze implementation plans by December 2007, identifying the facilities that will have to reduce emissions and then set emissions limits for those facilities. However, states have not met that schedule and on January 15, 2009, the EPA published a notice finding that 37 states, 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. GRU has installed additional emission control equipment at DH 2 to reduce SO<sub>2</sub> and NO<sub>x</sub> emissions that potentially contribute to regional haze.

Recently, emissions modeling was completed for DH 1 to determine its impact on visibility in the Class I areas within 300 km of the unit. 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. GRU has voluntarily requested a cap on SO<sub>2</sub> emissions, which provides DH 2 with an exemption from the RFP section. A draft permit from the FDEP was issued on June 1, 2012 approving GRU's requested cap on SO<sub>2</sub> emissions, and the final permit was issued on June 26, 2012.

#### **Internal Combustion Engine MACT**

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

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### 14. Commitments and Contingencies (continued)

#### Climate Change

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

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

On May 13, 2010, the EPA issued a final rule for determining the applicability of the PSD program to GHG emissions from major sources. The rule, known as the Tailoring Rule, establishes criteria for identifying facilities required to obtain PSD permits and the emissions thresholds at which permitting and other regulatory requirements apply. The applicability threshold levels established by this rule include both a mass-based calculation and a metric known as the carbon dioxide equivalent, or CO<sub>2</sub>e, which incorporates the global warming potential for each of the six individual gases that comprise the collective GHG defined in the endangerment finding.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### 14. Commitments and Contingencies (continued)

#### Climate Change (continued)

The Tailoring Rule required, as of January 2, 2011, sources that are subject to PSD and/or Title V permits due to their non-GHG emissions (such as fossil fuel based electric generating facilities for their NO<sub>x</sub>, SO<sub>2</sub> and other emissions) would have to address GHG emissions in new permit applications or renewals. Construction or modification of major sources became subject to PSD requirements for their GHG emissions if the construction or modification resulted in a net increase in the overall mass of GHG emissions exceeding 75,000 tons per year on a CO<sub>2</sub>e basis. New and modified major sources required to obtain a PSD permit were required to conduct a BACT review for their GHG emissions. With respect to Title V requirements sources that were required to have Title V permits for non-GHG pollutants were required to address GHGs as part of their Title V permitting. The 75,000 tons per year CO<sub>2</sub>e applicability threshold did not apply, so when any source applied for, renewed, or revised a Title V permit, the Clean Air Act requirements for monitoring, recordkeeping and reporting were included. On June 26, 2012, the United States Court of Appeals for the D.C. Circuit Court upheld the Endangerment Finding and the Tailpipe Rule and found that the petitioners did not have standing to challenge the Timing and Tailoring Rules. The court dismissed all petitions for review of the Timing and Tailoring Rules for lack of jurisdiction and denied the petitions for review of the Endangerment Finding and the Tailpipe Rule.

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

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

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **14. Commitments and Contingencies (continued)**

#### **Climate Change (concluded)**

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

On June 25, 2013, President Obama issued a Presidential Memorandum directing the EPA to work expeditiously to complete GHG standards for the power sector. The agency is using its authority under section 111(d) of the Clean Air Act to issue emission guidelines, to address GHG emissions from existing power plants. The Presidential Memorandum specifically directed EPA to build on state leadership, provide flexibility and take advantage of a wide range of energy sources and technologies towards building a cleaner power sector. The Presidential Memorandum directed EPA to issue proposed GHG standards, regulations, or guidelines, as appropriate, for existing power plants by no later than June 1, 2014, and issue final standards, or guidelines, as appropriate, by no later than June 1, 2015. In addition, the Presidential Memorandum directed EPA to include in the guidelines addressing existing power plants a requirement that states submit to EPA the implementation plans required under section 111(d) of the Clean Air Act and its implementing regulations by no later than June 30, 2016, subject to states being able to request more time to submit complete implementation plans and the EPA being able to allow states until June 30, 2017 or June 30, 2018, as appropriate, to submit additional information completing the submitted plan no later than June 30, 2016.

Accordingly, on June 2, 2014, EPA released a proposed rule, the Clean Power Plan Rule, that would limit and reduce carbon dioxide emissions from certain fossil fuel power plants, including existing plants. Finally, on August 3, 2015, EPA released the final version of the Clean Power Plan. Initially, it appears that the reductions for Florida have been relaxed somewhat. Due to the size and complexity of the rule, GRU has not determined the impact on operations at this time but is working closely with the trade associations it is a member of (FCG, Class of '85, APPA, and FMEA) to determine the impact.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **14. Commitments and Contingencies (continued)**

#### **Coal Ash**

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

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

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

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

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



# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **14. Commitments and Contingencies (continued)**

#### **Coal Ash (concluded)**

On December 19, 2014, EPA released a final rule pertaining to coal combustion residuals ("CCR"), commonly known as coal ash. The final rule treats CCR as nonhazardous material under Subtitle D of the Resource Conservation and Recovery Act ("RCRA"), and not as hazardous waste under Subtitle C. GRU is currently performing a "gap" analysis to determine what different or additional facilities and/or monitoring will be required to comply with this new rule.

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

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

#### **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 and two above-ground No. 6 oil tanks (currently not in service), and DH has one above-ground distillate and two above-ground No. 6 oil tanks (one currently not in service). All of the GRU's fuel storage tanks have secondary containment and/or interstitial monitoring and the Utility is insured for the requisite amounts.

#### **Superfund and Remediation Sites**

CERCLA, as well as parallel state statutes, require cleanup of sites from which there has been a release or threatened release of hazardous substances and authorizes the EPA to take any necessary response action at Superfund sites, including ordering a potentially responsible party (PRP) liable for the release to take or pay for such actions. PRPs are broadly defined under CERCLA to include past and present owners and operators of, as well as generators of wastes sent to, a site. GRU is a PRP at the Bill Johns Waste Oil Site in Jacksonville, Florida under these

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **14. Commitments and Contingencies (continued)**

#### **Superfund and Remediation Sites (concluded)**

statutes. GRU's liability at this site was incurred through the improper management of waste oils by operators providing services under contract to the Utility. GRU is no more than a de minimis party at this site and has already resolved its liability with the EPA and is currently working with the State to resolve State liability issues.

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

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

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

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

In August 2013, the Utility 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. GRU is currently responding to comments raised by the FDEP.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **14. Commitments and Contingencies (continued)**

#### **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 St. Johns River Water Management District (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 Utility 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 Utility's water supply.

The SJRWMD and the Suwannee River Water Management District (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 Alachua County enacted an ordinance creating year-round water conservation measures and water shortage regulations (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.

GRU cannot predict what effects these factors will have on the business, operations, and financial condition of the Utility, but the effects could be significant.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **14. Commitments and Contingencies (continued)**

#### **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, GRU assumed responsibility for the investigation and remediation of environmental impacts related to the operation of the former MGP. GRU 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 Utility has completed limited removal actions. GRU 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 will be redeveloped by the City as a park that will have stormwater ponds, nature trails, and recreational space, all of which were considered in the remediation plan's design. The duration of the groundwater monitoring program will be for the duration of the permit, and that timeframe is open to the results of what the sampling data shows.

Based upon GRU's analysis of the cost to clean up this site, GRU has accrued a liability to reflect the costs associated with the cleanup effort. During fiscal years 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.

#### **GREC**

On March 10, 2016, Gainesville Renewable Energy Center, LLC ("GREC"), filed arbitration (American Arbitration Association Case No. 01-16-0000-8157) against the City doing business as the Gainesville Regional Utilities ("GRU"), initially challenging GRU's withholding payment of invoiced amounts pursuant to the long-term power purchase agreement between GRU and GREC ("PPA"). As of January 31, 2017, \$7.4 million (including accrued interest) has been withheld by GRU based on disputed amounts actually invoiced by GREC. In addition, GREC has alleged claims in contract and tort that it asserts could result in aggregate damages to GREC of over

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### 14. Commitments and Contingencies (concluded)

#### GREC (concluded)

\$100 million. Likewise, GRU has alleged claims in contract that could result in aggregate damages to GRU of over \$100 million. At this stage in the proceedings, neither party has substantiated the dollar value of these additional claims to the tribunal. At this stage in the proceedings, it is not possible for GRU to predict the outcome of these claims. However, GRU is vigorously defending against the GREC Counts in arbitration and believes that (i) some or all of any damages resulting from the GREC Counts constituting tort claims would be subject to sovereign immunity claims processes and statutory caps, (ii) some or all of any damages resulting from the tort claims may be covered by liability insurance of the City, and (iii) regardless of whether GREC is successful on any of the GREC Counts, GRU Management believes that any potential liability of GRU will not have a material adverse effect on the financial conditions of GRU.

#### Operating Leases

GRU leases various equipment, facilities and property under operating leases that are cancelable only under certain circumstances. Rental costs under operating leases for the years ended September 30, 2016 and 2015, were \$125,000 and \$122,000, respectively.

Future minimum rental payments for various operating leases are:

Year ending September 30,	Future Minimum Rental Payments
2017	\$ 109,462
2018	103,333
2019	27,066
2020	7,433
2021	7,203
2022-2026	30,250
2027-2031	30,250
2032-2036	30,250
2037-2041	30,250
2042-2046	30,250
2047	6,050
	<u>\$ 411,797</u>

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### 15. Retirement Plans

The City sponsors and administers the Employees' Pension Plan (Employees' Plan) and the Employees' Disability Plan (Disability Plan). The Disability Plan, a single-employer disability plan, was terminated during Fiscal Year 2015.

#### Defined Benefit Plans

##### *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. 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.

The Employees' Plan provides retirement, disability, and death benefits. In prior years, disability benefits were provided through a separate plan which was terminated during fiscal year 2015. Existing and future pension assets and pension liabilities were transferred to the Employees' Plan in April 2015.

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.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### 15. Retirement Plans (continued)

#### Defined Benefit Plans (continued)

##### *Employees' Plan: (continued)*

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 5/12ths 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 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 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.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### 15. Retirement Plans (continued)

#### Defined Benefit Plans (continued)

##### *Employees' Plan: (continued)*

- 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.



# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### 15. Retirement Plans (continued)

#### Defined Benefit Plans (continued)

##### *Employees' Plan: (continued)*

- 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.

At September 30, the following City employees were covered by the benefit terms:

	<b>2016</b>	2015
Active members	<b>1,465</b>	1,450
Retirees members/beneficiaries currently receiving benefits	<b>1,225</b>	1,056
Terminated members/beneficiaries entitled to benefits but not yet receiving benefits	<b>431</b>	539
Total	<b>3,121</b>	3,045

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 rates were 16.88% and 14.92% of covered payroll for the years ended September 2016 and 2015, respectively. This rate was influenced by the issuance of the Taxable Pension Obligation

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### 15. Retirement Plans (continued)

#### Defined Benefit Plans (continued)

##### *Employees' Plan: (concluded)*

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.

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

The net pension liability applicable to GRU as an enterprise fund of the City was \$71.3 million and \$76.1 million at September 30, 2016 and 2015, respectively.

The total pension liability as of September 30, 2016, was determined based on a roll-forward of entry age normal liabilities from the October 1, 2015 actuarial valuation. Below is a summary of the key actuarial assumptions used in the October 1, 2015 actuarial valuation:

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

##### *Mortality Rate:*

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table-Dynamic with projection to October 1, 2015.

##### *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.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

### 15. Retirement Plans (continued)

#### Defined Benefit Plans (continued)

*Long-term Expected Rate of Return: (concluded)*

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%
Intl Equity	3.00%	2.00%	5.50%	10.50%	30.00%	3.15%
Domestic Bonds	3.00%	2.00%	0.50%	5.50%	2.00%	0.11%
Intl Bonds	3.00%	2.00%	1.50%	6.50%	0.00%	0.00%
Real Estate	3.00%	2.00%	2.50%	7.50%	16.00%	1.20%
Alternatives	3.00%	2.00%	3.50%	7.50%	0.00%	0.00%
US Treasuries	3.00%	0.00%	0.00%	3.00%	0.00%	0.00%
Cash	3.00%	-2.00%	0.00%	1.00%	2.00%	0.02%
Total					<u>100.00%</u>	<u>9.23%</u>

#### *Discount Rate:*

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

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

### 15. Retirement Plans (continued)

#### Defined Benefit Plans (continued)

*Discount Rate: (concluded)*

Changes in the Net Pension Liability for GRU (in thousands):

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 10/01/2015	\$ 262,553	\$ 186,490	\$ 76,063
Changes for the year:			
Service cost	4,622	-	4,622
Interest	22,661	-	22,661
Differences between expected an actual experience	669	-	669
Transfer from terminated Disability Plan	-	-	-
Changes to assumptions	2,884	-	2,884
Contributions - employer	-	8,000	(8,000)
Contributions - employee	-	4,716	(4,716)
Net investment income	-	23,255	(23,255)
Benefit payments, including refunds and DROP payouts	(22,106)	(22,106)	-
Administrative expense	-	(397)	397
Net changes	8,730	13,468	(4,738)
Balances at 09/30/2016	<u>\$ 271,283</u>	<u>\$ 199,958</u>	<u>\$ 71,325</u>

Changes in the Net Pension Liability for GRU (in thousands):

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 10/01/2014	\$ 243,108	\$ 193,720	\$ 49,388
Changes for the year:			
Service cost	3,988	-	3,988
Interest	19,926	-	19,926
Differences between expected an actual experience	1,090	-	1,090
Transfer from terminated Disability Plan	1,369	1,294	75
Changes to assumptions	8,853	-	8,853
Contributions - employer	-	6,549	(6,549)
Contributions - employee	-	2,418	(2,418)
Net investment income	-	(1,386)	1,386
Benefit payments, including refunds and DROP payouts	(15,781)	(15,781)	-
Administrative expense	-	(324)	324
Net changes	19,445	(7,230)	26,675
Balances at 09/30/2015	<u>\$ 262,553</u>	<u>\$ 186,490</u>	<u>\$ 76,063</u>

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

### 15. Retirement Plans (continued)

#### Defined Benefit Plans (continued)

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

The following presents the net pension liability, calculated using the discount rate of 8.2% and 8.3% as of September 30, 2016 and 2015, 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 or 1 percentage-point higher than the current rate:

	<u>2016</u>		
Sensitivity for GRU's Portion (in thousands):	<u>1% Decrease (7.2%)</u>	<u>Current Discount Rate (8.2%)</u>	<u>1% Increase (9.2%)</u>
Net pension liability	\$ 113,976	\$ 71,326	\$ 44,307

	<u>2015</u>		
Sensitivity for GRU's Portion (in thousands):	<u>1% Decrease (7.3%)</u>	<u>Current Discount Rate (8.3%)</u>	<u>1% Increase (9.3%)</u>
Net pension liability	\$ 104,022	\$ 76,062	\$ 52,024

##### *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, 2016 and 2015, GRU recognized pension expense for the Employees' Plan of \$8 million and \$7 million, respectively. At September 30, 2016 and 2015, the City and GRU reported deferred outflows of resources related to the Employees' Plan from the following sources (in thousands):

	<u>2016</u>
	<u>Deferred Outflows of Resources GRU's Portion</u>
Differences between expected and actual experience	\$ 1,302
Net difference between projected and actual earnings on pension plan investments	11,087
Changes to assumptions	8,566
Total	<u>\$ 20,955</u>

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

**15. Retirement Plans (continued)**

**Defined Benefit Plans (continued)**

*Pension expense and deferred outflows of resources and deferred inflows of resources: (concluded)*

	<u>2016</u> <u>Deferred Inflows</u> <u>of Resources</u> <u>GRU's Portion</u>
Net difference between projected and actual earnings on pension plan investments	\$ 5,745
Total	<u>\$ 5,745</u>

	<u>2015</u> <u>Deferred Outflows</u> <u>of Resources</u> <u>GRU's Portion</u>
Differences between expected and actual experience	\$ 908
Net difference between projected and actual earnings on pension plan investments	13,889
Changes to assumptions	<u>7,378</u>
Total	<u>\$ 22,175</u>

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

<u>Fiscal Year</u>	<u>GRU</u>
2017	\$ 4,763
2018	4,763
2019	4,763
2020	921
Total	<u>\$ 15,210</u>

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **15. Retirement Plans (concluded)**

#### **Defined Benefit Plans (concluded)**

*Disability Plan (terminated during the 2015 fiscal year):*

The Disability Plan was a contributory defined benefit single-employer plan that covered all permanent employees of the City, except police officers and firefighters whose disability plan is incorporated in the Consolidated Plan. The Disability Plan was terminated during the 2015 fiscal year. The net pension liability and related pension assets in an amount which covered the liability were transferred into the Employees' Plan. Assets representing the overfunded portion were disbursed to the City and GRU. GRU's disbursement totaled \$3.7 million.

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.

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 of Florida 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 requires actuarial costs 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.

# Gainesville Regional Utilities

## Notes to Financial Statements

September 30, 2016 and 2015

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### **16. Other Post-employment Benefits Plan**

In July 2005, the City issued \$35,210,000 Taxable Other Post Employment Benefit (OPEB) bonds to retire the unfunded actuarial accrued liability then existing in the RHCP Trust Fund. 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 fiscal year 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 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.

The cost of providing post-employment benefits to GRU retirees was \$246,000 and \$242,000 for fiscal years ended September 30, 2016 and 2015, respectively.

### **17. Risk Management**

GRU 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 and insures against these losses. GRU purchases plant and machinery insurance from a commercial carrier. There have been no significant reductions in insurance coverage from the prior year, and settlements have not exceeded insurance coverage for the past three fiscal years. The City is self-insured for workers' compensation, auto liability, and general liability but carries excess workers' compensation coverage. These risks are accounted for under the City's General Insurance Fund.

GRU reimburses the City for premiums and claims paid on its behalf, recording the appropriate expense. However, GRU does maintain its own insurance reserve, for the self-insured portion. An actuarial study completed during fiscal year 2008 resulted in an increase to a balance of \$3.3 million. The present value calculation assumes a rate of return of 4.5% with a confidence level of 75%. This reserve is recorded as a fully amortized deferred credit. All claims for fiscal 2016 and 2015 were paid from current year's revenues.



Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

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**17. Risk Management (concluded)**

Changes in the insurance reserve as of September 30 (in thousands):

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims</u>	<u>Payments</u>	<u>Change in Reserve</u>	<u>Ending Balance</u>
<b>2016</b>	<b>\$ 3,337</b>	<b>\$ 1,178</b>	<b>\$ (1,178)</b>	<b>\$ -</b>	<b>\$ 3,337</b>
2015	\$ 3,337	\$ 1,957	\$ (1,957)	\$ -	\$ 3,337

## **SUPPLEMENTARY INFORMATION**

Gainesville Regional Utilities  
Schedules of Combined Net Revenues  
in Accordance with Bond Resolution  
For the Years Ended September 30, 2016 and 2015

	2016	2015
Revenues:		
Electric system:		
Sales of electricity	\$ 287,808,939	\$ 288,969,402
Other revenues	14,907,556	8,133,766
Transfers from (to) rate stabilization	1,040,147	(2,254,681)
Interest/Investment income	1,338,385	1,105,693
Build America Bonds interest income	2,975,136	2,960,079
Total electric system revenues	<u>308,070,163</u>	<u>298,914,259</u>
Water system:		
Sales of water	33,048,658	30,721,119
Other revenues	3,062,392	3,307,878
Transfers to rate stabilization	(3,264,403)	(2,434,339)
Interest/Investment income	137,904	99,446
Build America Bonds interest income	833,766	829,497
Total water system revenues	<u>33,818,317</u>	<u>32,523,601</u>
Wastewater system:		
Sales of wastewater	38,220,254	36,507,374
Other revenues	5,111,199	3,562,876
Transfers to rate stabilization	(2,117,697)	(2,900,758)
Interest/Investment income	191,823	155,474
Build America Bonds interest income	940,799	935,912
Total wastewater system revenues	<u>42,346,378</u>	<u>38,260,878</u>
Gas system:		
Sales of gas	20,316,747	23,458,123
Other revenues	1,228,825	1,439,273
Transfers from (to) rate stabilization	1,986,508	(1,552,394)
Interest/Investment income	170,119	145,879
Build America Bonds interest income	622,829	619,674
Total gas system revenues	<u>24,325,028</u>	<u>24,110,555</u>
Telecommunications system:		
Sales of services	11,684,200	10,884,837
Other revenues	1,294	197,617
Transfers (to) from rate stabilization	(7,402)	1,438,490
Interest/Investment income	66,392	78,794
Total telecommunications system revenue	<u>11,744,484</u>	<u>12,599,738</u>
Total revenues	<u>\$ 420,304,370</u>	<u>\$ 406,409,031</u>

Continued on next page.

Gainesville Regional Utilities  
Schedules of Combined Net Revenues  
in Accordance with Bond Resolution (concluded)  
For the Years Ended September 30, 2016 and 2015

	2016	2015
Operation, maintenance and administrative expenses:		
Electric system:		
Fuel expense	\$ 156,070,106	\$ 157,197,363
Operation and maintenance	42,020,231	38,917,185
Administrative and general	27,200,222	20,967,375
Total electric system expense	<u>225,290,559</u>	<u>217,081,923</u>
Water system:		
Operation and maintenance	7,985,190	7,620,989
Administrative and general	6,841,967	5,937,611
Total water system expense	<u>14,827,157</u>	<u>13,558,600</u>
Wastewater system:		
Operation and maintenance	10,939,007	8,643,637
Administrative and general	6,449,144	5,690,062
Total wastewater system expense	<u>17,388,151</u>	<u>14,333,699</u>
Gas system:		
Fuel expense	6,751,817	9,396,610
Operation and maintenance	2,058,670	1,352,256
Administrative and general	5,766,555	4,569,017
Total gas system expense	<u>14,577,042</u>	<u>15,317,883</u>
Telecommunications system:		
Operation and maintenance	4,301,929	4,406,907
Administrative and general	3,120,361	4,052,956
Total telecommunications system expense	<u>7,422,290</u>	<u>8,459,863</u>
Total operation, maintenance, and administrative expenses	<u>279,505,199</u>	<u>268,751,968</u>
Net revenue in accordance with bond resolution:		
Electric	82,780,604	81,832,336
Water	18,991,160	18,965,001
Wastewater	24,958,227	23,927,179
Gas	9,747,986	8,792,672
Telecommunications	4,322,194	4,139,875
Total net revenue in accordance with bond resolution	<u>\$ 140,800,171</u>	<u>\$ 137,657,063</u>
Aggregate bond debt service	<u>\$ 55,821,582</u>	<u>\$ 55,461,104</u>
Aggregate bond debt service coverage ratio	<u>2.52</u>	<u>2.48</u>
Total debt service	<u>\$ 62,027,441</u>	<u>\$ 61,638,702</u>
Total debt service coverage ratio	<u>2.27</u>	<u>2.23</u>

Gainesville Regional Utilities  
Schedules of Net Revenues in Accordance with Bond Resolution –  
Electric Utility System  
For the Years Ended September 30, 2016 and 2015

	2016	2015
Revenues		
Sales of electricity:		
Residential	\$ 48,414,299	\$ 47,154,370
Non-residential	60,244,513	59,867,164
Fuel adjustment	155,825,143	157,197,363
Sales for resale	3,901,063	5,451,881
Utility surcharge	3,049,201	3,058,030
Other electric sales	16,375,720	16,240,594
Total sales of electricity	<u>287,809,939</u>	<u>288,969,402</u>
Other revenues	14,907,556	8,133,766
Transfers from (to) rate stabilization	1,040,147	(2,254,681)
Interest Income	1,338,385	1,105,693
Build America Bonds interest income	2,975,136	2,960,079
Total revenues	<u>308,071,163</u>	<u>298,914,259</u>
Operation, maintenance and administrative expenses		
Fuel and purchased power	155,825,143	157,197,363
Power production	27,723,441	25,947,596
Transmission	1,735,154	1,541,525
Interchange	244,963	1,694,099
Distribution	12,561,636	9,733,965
Customer accounts and sales	3,855,335	3,341,914
Administrative and general	23,344,887	17,625,461
Total operation, maintenance, and administrative expenses	<u>225,290,559</u>	<u>217,081,923</u>
Total net revenues in accordance with bond resolution	<u>\$ 82,780,604</u>	<u>\$ 81,832,336</u>

Gainesville Regional Utilities  
Schedules of Net Revenues in Accordance with Bond Resolution –  
Water Utility System  
For the Years Ended September 30, 2016 and 2015

	<b>2016</b>	<b>2015</b>
Revenues		
Residential	<b>\$ 20,391,611</b>	\$ 18,570,332
Non-residential	<b>8,385,314</b>	7,928,002
University of Florida	<b>1,891,566</b>	2,033,206
Utility surcharge	<b>2,380,167</b>	2,189,579
Total sales of water	<b>33,048,658</b>	30,721,119
Other revenues	<b>3,062,392</b>	3,307,878
Transfers to rate stabilization	<b>(3,264,403)</b>	(2,434,339)
Interest income	<b>137,904</b>	99,446
Build America Bonds interest income	<b>833,766</b>	829,497
Total revenues	<b>33,818,317</b>	32,523,601
Operation, maintenance, and administrative expenses		
Pumping and water treatment	<b>5,472,920</b>	5,315,400
Transmission and distribution	<b>2,512,270</b>	2,305,589
Customer accounts and sales	<b>1,469,645</b>	1,304,831
Administrative and general	<b>5,372,322</b>	4,632,780
Total operation, maintenance, and administrative expenses	<b>14,827,157</b>	13,558,600
Total net revenues in accordance with bond resolution	<b>\$ 18,991,160</b>	\$ 18,965,001

Gainesville Regional Utilities  
Schedules of Net Revenues in Accordance with Bond Resolution –  
Wastewater Utility System  
For the Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues		
Residential	\$ 26,062,781	\$ 24,923,586
Non-residential	9,514,192	8,943,974
Utility surcharge	2,643,281	2,528,779
Other wastewater sales	-	111,035
Total sales of services	<u>38,220,254</u>	<u>36,507,374</u>
Other revenues	5,111,199	3,562,876
Transfers to rate stabilization	(2,117,697)	(2,900,758)
Interest income	191,823	155,474
Build America Bonds interest income	940,799	935,912
Total revenues	<u>42,346,378</u>	<u>38,260,878</u>
Operation, maintenance, and administrative expenses		
Collection	3,669,178	3,299,051
Treatment	7,269,829	5,344,586
Customer accounts and sales	1,172,851	851,324
Administrative and general	5,276,293	4,838,738
Total operation, maintenance, and administrative expenses	<u>17,388,151</u>	<u>14,333,699</u>
Total net revenues in accordance with bond resolution	<u>\$ 24,958,227</u>	<u>\$ 23,927,179</u>

Gainesville Regional Utilities  
Schedules of Net Revenues in Accordance with Bond Resolution –  
Gas Utility System  
For the Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues		
Residential	\$ 7,142,586	\$ 7,420,044
Non-residential	4,753,630	4,421,237
Purchased gas adjustment	6,751,817	9,396,610
Other gas sales	1,668,714	2,220,232
Total sales of gas	<u>20,316,747</u>	<u>23,458,123</u>
Other revenues	1,228,825	1,439,273
Transfers from (to) rate stabilization	1,986,508	(1,552,394)
Interest income	170,119	145,879
Build America Bonds interest income	622,829	619,674
Total revenues	<u>24,325,028</u>	<u>24,110,555</u>
Operation, maintenance, and administrative expenses		
Fuel expense - purchased gas	6,751,817	9,396,610
Operation and maintenance	2,058,670	1,352,256
Customer accounts and sales	2,213,963	2,483,375
Administrative and general	3,552,592	2,085,642
Total operation, maintenance, and administrative expenses	<u>14,577,042</u>	<u>15,317,883</u>
Total net revenues in accordance with bond resolution	<u>\$ 9,747,986</u>	<u>\$ 8,792,672</u>



Gainesville Regional Utilities  
Schedules of Net Revenues in Accordance with Bond Resolution –  
Telecommunications System  
For the Years Ended September 30, 2016 and 2015

	<b>2016</b>	<b>2015</b>
Revenues		
Telecommunication	<b>\$ 4,598,731</b>	\$ 4,832,418
Trunking radio	<b>1,733,641</b>	1,772,257
Tower lease	<b>3,179,963</b>	2,244,525
Internet access	<b>2,171,865</b>	2,035,637
Total sales of services	<b>11,684,200</b>	10,884,837
Other revenue	<b>1,294</b>	197,617
Transfers (to) from rate stabilization	<b>(7,402)</b>	1,438,490
Interest income	<b>66,392</b>	78,794
Total revenues	<b>11,744,484</b>	12,599,738
Operation, maintenance, and administrative expenses		
Operation and maintenance	<b>4,301,929</b>	4,406,907
Customer accounts and sales	<b>197,662</b>	253,783
Administrative and general	<b>2,922,699</b>	3,799,173
Total operation, maintenance, and administrative expenses	<b>7,422,290</b>	8,459,863
Total net revenues in accordance with bond resolution	<b>\$ 4,322,194</b>	\$ 4,139,875

**Gainesville Regional Utilities**  
**Notes to Schedules of Net Revenues in Accordance with Bond Resolution**  
**For the Years Ended September 30, 2016 and 2015**

The Schedules of Net Revenues in Accordance with Bond Resolution differ from the Statements of Revenues, Expenses, and Changes in Net Position as follows:

- ° Operation and maintenance expenses do not include depreciation or amortization expense.
- ° Contributions in aid of construction are excluded.
- ° Operating transfer to the City's General Fund is excluded.
- ° Debt service is excluded.
- ° Utility Plant Improvement Fund cash contributions and withdrawals are excluded.

**Gainesville Regional Utilities**  
**Combining Statement of Net Position**  
**September 30, 2016**

	Electric	Water	Wastewater	Gas	GRUCom	Combined
<b>Assets</b>						
Current assets:						
Cash and investments	\$ 46,253,462	\$ -	\$ 2,621,310	\$ 10,690,767	\$ 3,069,511	\$ 62,635,050
Accounts receivable, net of allowance for uncollectible accounts	37,279,200	4,298,279	4,271,621	1,520,459	1,981,812	49,351,371
Inventories:						
Fuel	8,162,677	-	-	-	-	8,162,677
Materials and supplies	4,968,730	906,719	-	396,465	674,181	6,946,095
Other assets and regulatory assets	99,637	30,521	39,636	1,643,378	9,821	1,822,993
<b>Total current assets</b>	<b>96,763,706</b>	<b>5,235,519</b>	<b>6,932,567</b>	<b>14,251,069</b>	<b>5,735,325</b>	<b>128,918,186</b>
Restricted and internally designated assets:						
Utility deposits – cash and investments	8,066,522	796,262	592,385	436,211	-	9,891,380
Debt service – cash and investments	27,536,444	3,962,282	5,605,371	2,785,032	1,825,311	41,714,440
Rate stabilization – cash and investments	51,608,386	7,407,768	10,897,518	4,339,664	8,742	74,262,078
Construction fund – cash and investments	9,530,932	658,528	1,175	1,832,816	6,235,063	18,258,514
Utility plant improvement – cash and investments	42,093,872	8,414,607	4,853,180	3,359,291	71,132	58,792,082
<b>Total restricted and internally designated assets</b>	<b>138,836,156</b>	<b>21,239,447</b>	<b>21,949,629</b>	<b>12,753,014</b>	<b>8,140,248</b>	<b>202,918,494</b>
Noncurrent assets:						
Net costs recoverable in future years - regulatory asset	46,423,923	-	-	-	-	46,423,923
Unamortized debt issuance costs - regulatory asset	3,635,450	670,380	817,370	404,529	293,703	5,821,432
Investment in The Energy Authority	1,313,699	-	-	788,982	-	2,102,681
Pollution remediation - regulatory asset	-	-	-	12,826,026	-	12,826,026
Other noncurrent assets and regulatory assets	4,563,425	931,775	1,122,419	373,202	166,007	7,156,828
Pension regulatory asset	32,839,011	6,857,360	8,249,034	4,842,800	3,327,672	56,115,877
<b>Total noncurrent assets</b>	<b>88,775,508</b>	<b>8,459,515</b>	<b>10,188,823</b>	<b>19,235,539</b>	<b>3,787,382</b>	<b>130,446,767</b>
Capital assets:						
Utility plant in service	1,107,010,833	264,030,190	340,615,157	84,396,982	70,601,050	1,866,654,212
Capital lease	1,006,808,754	-	-	-	-	1,006,808,754
Less: accumulated depreciation and amortization	(523,472,764)	(101,993,673)	(137,281,308)	(42,440,343)	(33,037,732)	(838,225,820)
	1,590,346,823	162,036,517	203,333,849	41,956,639	37,563,318	2,035,237,146
Construction in progress	43,675,427	22,755,978	36,059,402	3,780,440	3,420,970	109,692,217
<b>Net capital assets</b>	<b>1,634,022,250</b>	<b>184,792,495</b>	<b>239,393,251</b>	<b>45,737,079</b>	<b>40,984,288</b>	<b>2,144,929,363</b>
<b>Total assets</b>	<b>1,958,397,620</b>	<b>219,726,976</b>	<b>278,464,270</b>	<b>91,976,701</b>	<b>58,647,243</b>	<b>2,607,212,810</b>
Deferred outflows of resources:						
Unamortized loss on refundings of bonds	14,825,906	3,042,118	3,503,502	1,309,395	2,085,402	24,766,323
Accumulated decrease in fair value of hedging derivatives	56,320,283	10,635,328	10,113,142	2,793,991	1,499,755	81,362,499
Pension costs	12,262,755	2,560,678	3,080,357	1,808,400	1,242,620	20,954,810
<b>Total deferred outflows of resources</b>	<b>83,408,944</b>	<b>16,238,124</b>	<b>16,697,001</b>	<b>5,911,786</b>	<b>4,827,777</b>	<b>127,083,632</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 2,041,806,564</b>	<b>\$ 235,965,100</b>	<b>\$ 295,161,271</b>	<b>\$ 97,888,487</b>	<b>\$ 63,475,020</b>	<b>\$ 2,734,296,442</b>

Continued on next page.

**Gainesville Regional Utilities**  
**Combining Statement of Net Position (concluded)**  
**September 30, 2016**

	<b>Electric</b>	<b>Water</b>	<b>Wastewater</b>	<b>Gas</b>	<b>GRUCom</b>	<b>Combined</b>
<b>Liabilities</b>						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 15,524,263	\$ 2,120,101	\$ 2,027,174	\$ 928,613	\$ 554,826	\$ 21,154,977
Fuels payable	11,812,861	-	-	357,952	-	12,170,813
Due to other funds of the City	1,554,102	56,741	(92,531)	(44,851)	16,483	1,489,944
Capital lease – current portion	18,409,781	-	-	-	-	18,409,781
Fuel adjustment	12,902,279	-	-	1,929,285	-	14,831,564
Other liabilities and regulatory liabilities	689,287	284,067	71,419	462,259	392,815	1,899,847
<b>Total current liabilities</b>	<b>60,892,573</b>	<b>2,460,909</b>	<b>2,006,062</b>	<b>3,633,258</b>	<b>964,124</b>	<b>69,956,926</b>
Payable from restricted assets:						
Utility deposits	8,054,877	796,262	592,384	436,211	-	9,879,734
Construction fund:						
accounts payable and accrued liabilities	6,689,886	607,263	1,470,321	225,965	219,990	9,213,425
Utilities system revenue bonds – current portion	79,479,579	12,200,157	12,722,263	706,460	2,426,541	107,535,000
Commercial paper notes – current portion	2,972,480	482,160	1,193,360	952,000	8,000,000	13,600,000
Accrued interest payable	11,091,453	2,481,394	2,931,185	1,369,438	643,295	18,516,765
<b>Total payable from restricted assets</b>	<b>108,288,275</b>	<b>16,567,236</b>	<b>18,909,513</b>	<b>3,690,074</b>	<b>11,289,826</b>	<b>158,744,924</b>
Long-term debt:						
Utilities system revenue bonds	452,639,923	103,277,886	122,690,341	57,014,078	45,917,772	781,540,000
Commercial paper notes	24,361,240	3,951,650	9,783,480	7,803,630	-	45,900,000
Capital lease	941,269,071	-	-	-	-	941,269,071
Unamortized bond premium/discount	11,697,766	1,650,140	3,223,580	966,738	451,984	17,990,208
Fair value of derivative instruments	59,676,345	11,567,103	11,235,561	3,132,950	1,568,335	87,180,294
<b>Total long-term debt</b>	<b>1,489,644,345</b>	<b>120,446,779</b>	<b>146,932,962</b>	<b>68,917,396</b>	<b>47,938,091</b>	<b>1,873,879,573</b>
Noncurrent liabilities:						
Reserve for insurance claims	1,999,960	598,326	546,333	187,085	5,296	3,337,000
Reserve for environmental liability	-	-	-	266,000	-	266,000
Net pension liability	41,739,611	8,715,961	10,484,830	6,155,380	4,229,595	71,325,377
<b>Total noncurrent liabilities</b>	<b>43,739,571</b>	<b>9,314,287</b>	<b>11,031,163</b>	<b>6,608,465</b>	<b>4,234,891</b>	<b>74,928,377</b>
<b>Total liabilities</b>	<b>1,702,564,764</b>	<b>148,789,211</b>	<b>178,879,700</b>	<b>82,849,193</b>	<b>64,426,932</b>	<b>2,177,509,800</b>
<b>Deferred inflows of resources:</b>						
Rate stabilization	51,477,018	7,392,784	10,872,832	4,327,352	7,402	74,077,388
Unrealized gains related to pension	3,362,155	702,077	844,561	495,820	340,697	5,745,310
<b>Total deferred inflows of resources</b>	<b>54,839,173</b>	<b>8,094,861</b>	<b>11,717,393</b>	<b>4,823,172</b>	<b>348,099</b>	<b>79,822,698</b>
<b>Net position:</b>						
Net investment in capital assets	120,859,362	66,323,885	91,814,583	(5,963,555)	(7,711,534)	265,322,741
Restricted	58,681,876	9,910,479	7,552,053	4,787,197	1,254,488	82,186,093
Unrestricted	104,861,389	2,846,664	5,197,542	11,392,480	5,157,035	129,455,110
<b>Total net position</b>	<b>284,402,627</b>	<b>79,081,028</b>	<b>104,564,178</b>	<b>10,216,122</b>	<b>(1,300,011)</b>	<b>476,963,944</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 2,041,806,564</b>	<b>\$ 235,965,100</b>	<b>\$ 295,161,271</b>	<b>\$ 97,888,487</b>	<b>\$ 63,475,020</b>	<b>\$ 2,734,296,442</b>

**Gainesville Regional Utilities**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended September 30, 2016**

	<b>Electric</b>	<b>Water</b>	<b>Wastewater</b>	<b>Gas</b>	<b>GRUCom</b>	<b>Combined</b>
<b>Operating revenue:</b>						
Sales and service charges	\$ 276,623,151	\$ 33,048,659	\$ 38,181,350	\$ 20,293,166	\$ 11,684,200	\$ 379,830,526
Transfers from (to) rate stabilization	1,040,147	(3,264,403)	(2,117,697)	1,986,508	(7,402)	(2,362,847)
Amounts to be recovered from future revenue	33,560,292	-	-	-	-	33,560,292
Other operating revenue	13,675,292	3,026,049	4,874,687	1,213,808	-	22,789,836
<b>Total operating revenues</b>	<b>324,898,882</b>	<b>32,810,305</b>	<b>40,938,340</b>	<b>23,493,482</b>	<b>11,676,798</b>	<b>433,817,807</b>
<b>Operating expenses:</b>						
Operation and maintenance	198,091,986	7,985,190	10,939,007	8,810,487	4,301,929	230,128,599
Administrative and general	27,200,222	6,841,967	6,449,144	6,894,485	3,120,360	50,506,178
Depreciation and amortization	74,817,160	8,093,355	9,746,961	3,403,011	3,282,662	99,343,149
<b>Total operating expenses</b>	<b>300,109,368</b>	<b>22,920,512</b>	<b>27,135,112</b>	<b>19,107,983</b>	<b>10,704,951</b>	<b>379,977,926</b>
<b>Operating income</b>	<b>24,789,514</b>	<b>9,889,793</b>	<b>13,803,228</b>	<b>4,385,499</b>	<b>971,847</b>	<b>53,839,881</b>
<b>Non-operating income (expense):</b>						
Interest income (expense)	63,594	142,444	228,127	109,899	117,002	661,066
Interest expense, net of AFUDC	(22,676,000)	(5,223,520)	(5,271,739)	(2,868,309)	(1,771,965)	(37,811,533)
Other interest related income, BABs	2,975,135	833,766	940,799	622,829	-	5,372,529
Other income	12,491,184	36,342	723,308	38,926	36,753	13,326,513
<b>Total non-operating expense</b>	<b>(7,146,087)</b>	<b>(4,210,968)</b>	<b>(3,379,505)</b>	<b>(2,096,655)</b>	<b>(1,618,210)</b>	<b>(18,451,425)</b>
<b>Income before capital contributions and transfers</b>	<b>17,643,427</b>	<b>5,678,825</b>	<b>10,423,723</b>	<b>2,288,844</b>	<b>(646,363)</b>	<b>35,388,456</b>
<b>Capital contributions:</b>						
Contributions from third parties	194,936	676,636	787,827	-	-	1,659,399
Reduction of plant cost recovered through contributions	(194,936)	-	-	-	-	(194,936)
<b>Net capital contributions</b>	<b>-</b>	<b>676,636</b>	<b>787,827</b>	<b>-</b>	<b>-</b>	<b>1,464,463</b>
<b>Transfer to City of Gainesville General Fund</b>	<b>(19,421,998)</b>	<b>(5,677,873)</b>	<b>(7,497,591)</b>	<b>(2,397,129)</b>	<b>-</b>	<b>(34,994,591)</b>
<b>Change in net position</b>	<b>(1,778,571)</b>	<b>677,588</b>	<b>3,713,959</b>	<b>(108,285)</b>	<b>(646,363)</b>	<b>1,858,328</b>
<b>Net position – beginning of year</b>	<b>286,181,198</b>	<b>78,403,440</b>	<b>100,850,219</b>	<b>10,324,407</b>	<b>(653,648)</b>	<b>475,105,616</b>
<b>Net position – end of year</b>	<b>\$ 284,402,627</b>	<b>\$ 79,081,028</b>	<b>\$ 104,564,178</b>	<b>\$ 10,216,122</b>	<b>\$ (1,300,011)</b>	<b>\$ 476,963,944</b>

**Gainesville Regional Utilities**  
**Schedule of Utility Plant Properties – Combined Utility System**

	<b>Balance September 30, 2015</b>	<b>Additions</b>	<b>Sales, Retirements, and Transfers</b>	<b>Balance September 30, 2016</b>
<b>Plant in service</b>				
Electric utility system:				
Production plant	\$ 1,627,112,409	\$ 19,528,649	\$ 6,262,447	\$ 1,640,378,611
Transmission and distribution plant	346,992,533	9,683,714	2,440,106	354,236,141
General and common plant	118,903,048	1,582,814	1,281,027	119,204,835
Total electric utility system	<u>2,093,007,990</u>	<u>30,795,177</u>	<u>9,983,580</u>	<u>2,113,819,587</u>
Water utility system:				
Supply, pumping, and treatment plant	57,172,299	15,145,834	569,960	71,748,173
Transmission and distribution plant	161,742,026	8,220,599	420,798	169,541,827
General plant	22,560,409	278,619	98,838	22,740,190
Total water utility system	<u>241,474,734</u>	<u>23,645,052</u>	<u>1,089,596</u>	<u>264,030,190</u>
Wastewater utility system:				
Pumping and treatment plant	101,154,860	27,805,178	–	128,960,038
Collection plant	151,813,500	3,919,636	22,504	155,710,632
Reclaimed water plant	27,030,889	914,399	232,247	27,713,041
General plant	27,432,261	1,104,990	305,805	28,231,446
Total wastewater utility system	<u>307,431,510</u>	<u>33,744,203</u>	<u>560,556</u>	<u>340,615,157</u>
Gas utility system:				
Distribution plant	65,077,168	5,195,844	40,892	70,232,120
General plant	9,317,621	252,612	56,007	9,514,226
Plant acquisition adjustment	4,650,636	–	–	4,650,636
Total gas utility system	<u>79,045,425</u>	<u>5,448,456</u>	<u>96,899</u>	<u>84,396,982</u>
GRUCom utility system:				
Distribution plant	57,677,386	1,434,505	341,113	58,770,778
General plant	11,841,909	71,962	83,599	11,830,272
Total GRUCom utility system	<u>69,519,295</u>	<u>1,506,467</u>	<u>424,712</u>	<u>70,601,050</u>
Total plant in service	<u>\$ 2,790,478,954</u>	<u>\$ 95,139,355</u>	<u>\$ 12,155,343</u>	<u>\$ 2,873,462,966</u>
<b>Construction in progress</b>				
Electric utility system	\$ 32,901,685	\$ 43,084,533	\$ 32,310,792	\$ 43,675,426
Water utility system	38,818,437	7,830,059	23,892,518	22,755,978
Wastewater utility system	51,941,664	17,867,232	33,749,494	36,059,402
Gas utility system	6,799,524	2,447,002	5,466,085	3,780,441
GRUCom utility system	1,134,945	3,875,779	1,589,754	3,420,970
Total construction in progress	<u>\$ 131,596,255</u>	<u>\$ 75,104,605</u>	<u>\$ 97,008,643</u>	<u>\$ 109,692,217</u>

**Gainesville Regional Utilities**  
**Schedule of Accumulated Depreciation and Amortization –**  
**Combined Utility System**

	<b>Balance September 30, 2015</b>	<b>Additions</b>	<b>Sales, Retirements, and Transfers</b>	<b>Balance September 30, 2016</b>
<b>Electric utility system:</b>				
Production plant	\$ 288,380,806	\$ 51,331,029	\$ 3,913,038	\$ 335,798,797
Transmission and distribution plant	126,160,190	12,557,732	3,680,318	135,037,604
General and common plant	48,027,390	5,799,006	1,190,033	52,636,363
<b>Total electric utility system</b>	<b>462,568,386</b>	<b>69,687,767</b>	<b>8,783,389</b>	<b>523,472,764</b>
<b>Water utility system:</b>				
Supply, pumping, and treatment plant	17,653,416	2,586,690	567,191	19,672,915
Transmission and distribution plant	73,499,870	4,438,152	318,512	77,619,510
General plant	4,122,566	660,877	82,195	4,701,248
<b>Total water utility system</b>	<b>95,275,852</b>	<b>7,685,719</b>	<b>967,898</b>	<b>101,993,673</b>
<b>Wastewater utility system:</b>				
Pumping and treatment plant	53,296,050	2,900,952	(47,429)	56,244,431
Collection plant	66,176,508	4,386,467	(106,964)	70,669,939
Reclaimed water plant	2,438,001	793,910	213,684	3,018,227
General plant	6,302,673	1,306,409	260,371	7,348,711
<b>Total wastewater utility system</b>	<b>128,213,232</b>	<b>9,387,738</b>	<b>319,662</b>	<b>137,281,308</b>
<b>Gas utility system:</b>				
Distribution plant	31,983,026	2,797,610	12,425	34,768,211
General plant	2,573,549	478,417	30,471	3,021,495
Plant acquisition adjustment	4,650,637	-	-	4,650,637
<b>Total gas utility system</b>	<b>39,207,212</b>	<b>3,276,027</b>	<b>42,896</b>	<b>42,440,343</b>
<b>GRUCom utility system:</b>				
Distribution plant	28,782,931	2,345,461	387,699	30,740,693
General plant	1,939,279	441,432	83,672	2,297,039
<b>Total GRUCom utility system</b>	<b>30,722,210</b>	<b>2,786,893</b>	<b>471,371</b>	<b>33,037,732</b>
<b>Total depreciation and amortization</b>	<b>\$ 755,986,892</b>	<b>\$ 92,824,144</b>	<b>\$ 10,585,216</b>	<b>\$ 838,225,820</b>

## **OTHER REPORT**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and City Commissioners  
Gainesville, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Gainesville Regional Utilities (the Utility) of the City of Gainesville, Florida (the City), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements and have issued our report thereon dated March 6, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Utility's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Utility's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Certified Public Accountants**

P.O. Box 141270 • 222 N.E. 1st Street • Gainesville, Florida 32614-1270 • (352) 378-2461 • FAX (352) 378-2505  
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542  
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762  
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309  
MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS  
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

To the Honorable Mayor and City Commissioners  
Gainesville, Florida


**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(Concluded)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Utility's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Utility's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



March 6, 2017  
Gainesville, Florida

**APPENDIX B-2**

**UNAUDITED FINANCIAL STATEMENTS RELATING TO THE SYSTEM**

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# **Gainesville Regional Utilities**

## **Interim Financial Statements - Unaudited**

**For the Period Ended June 30, 2017**



**Gainesville Regional Utilities  
Financial Statements - Unaudited  
For the Period Ended June 30, 2017**

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# **Overview and Basis of Accounting**

# **Gainesville Regional Utilities**

## **Financial Statements - Unaudited**

### **For the Period Ended June 30, 2017**

#### **Overview**

Gainesville Regional Utilities (GRU or the Utility) is a combined municipal utility system operating electric, water, wastewater, natural gas, and telecommunications (GRUCom) systems. GRU is a utility enterprise of the City of Gainesville, Florida (City) and is reported as an enterprise fund in the comprehensive annual financial report of the City. GRU is required to follow the provisions in the Amended and Restated Utilities System Revenue Bond Resolution (Resolution) adopted by the City on January 30, 2003.

We offer readers these unaudited utility system financial statements for the period ended June 30, 2017.

#### **Basis of Accounting**

GRU is required to follow the provisions in the Amended and Restated Utilities System Revenue Bond Resolution (Resolution) adopted by the City on January 30, 2003. GRU's electric and gas accounts are maintained substantially in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC), as required by the Resolution, and in conformity with accounting principles generally accepted in the United States of America using the accrual basis of accounting, including the application of regulatory accounting as described in Governmental Accounting Standards Board (GASB) Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

GRU prepares its financial statements in accordance with GASB Statement No. 62, *paragraphs 476-500, Regulated Operations*, and records various regulatory assets and liabilities. For a government to report under GASB Statement No. 62, its rates must be designed to recover its costs of providing services, and the utility must be able to collect those rates from customers. If it were determined, whether due to regulatory action or competition, that these standards no longer applied, GRU could be required to expense its regulatory assets and liabilities. Management believes that GRU currently meets the criteria for continued application of GASB Statement No. 62, but will continue to evaluate significant changes in the regulatory and competitive environment to assess continuing applicability of the criteria.

The Resolution specifies the flow of funds from revenues and the requirements for the use of certain restricted and unrestricted assets. Under the Resolution, rates are designed to cover operation and maintenance expenses, rate stabilization, debt service requirements, utility plant improvement fund contributions and for any other lawful purpose. The flow of funds excludes depreciation expense and other noncash revenue and expense items. This method of rate setting results in costs being included in the determination of rates in different periods than when these costs are recognized for financial statement purposes. The effects of these differences are recognized in the determination of operating income in the period that they occur, in accordance with GRU's accounting policies.



# **Management's Discussion and Analysis**

# **Gainesville Regional Utilities**

## **Financial Statements - Unaudited**

### **For the Period Ended June 30, 2017**

#### **Management's Discussion and Analysis**

We offer readers of GRU's financial statements this management's discussion and analysis of the financial activities of GRU for the period ended June 30, 2017. It should be read in conjunction with the unaudited financial statements that follow this section.

#### **Financial Highlights – Overall**

- Operating cash and investments increased \$4 million or 10.1% due to normal operations and contributions to and from rate stabilization cash.
- Fuel inventories decreased \$9.7 million or 67.2% due to management's decision to reduce coal inventory in favor of the use of less expensive natural gas and purchased power for electric generation.
- Fuel adjustment levelization balance decreased \$17.8 million or 110.4% due to a combination of the following factors: a decrease in the fuel adjustment rate in May 2016; use of more expensive Gainesville Renewable Energy Center due to Deerhaven repairs and an upward trend in the cost of natural gas.

Currently, GRU is in arbitration with GREC regarding various matters related to the Power Purchase Agreement (PPA) with GREC. As of June 30, 2017, the amount in dispute totaled \$8.2 million. If GRU is not successful in its arbitration claim, the Utility will be required to expense this amount, thereby reducing the fuel adjustment levelization balance by \$8.2 million. The effect at June 30, 2017, would have resulted in a fuel adjustment levelization balance of negative \$9.9 million.

- Short term investments decreased by \$37.8 million or 33.3% due primarily to use of construction fund cash for capital expenses.
- Long term investments decreased by \$14 million or 13.7% due primarily to use of construction fund cash for capital expenses.
- Net costs recoverable in future years increased \$15.4 million or 36.1% due to capital lease transactional activity.
- Construction in progress decreased \$67 million and Utility Plant in Service increased \$148.7 million due to a Utility wide effort to capitalize assets placed into service. This effort was driven by the reimplementation of the SAP software project and changes in business processes.
- Accumulated decrease in fair value of hedging derivatives decreased \$28.9 million or 33.7% due primarily to a decrease in the unrealized loss on interest rate swaps.
- The pension liability decreased \$4.7 million and related deferred inflow of resources for pension costs increased \$5.7 million due to updated actuarial calculations at September 30, 2016. The actuarial calculations and resulting balances are completed at the City of Gainesville with the appropriate percentage applied to the Utility's financial statements.
- Certain 2016 amounts have been reclassified to conform to the 2017 presentation.

**Gainesville Regional Utilities**  
**Financial Statements - Unaudited**  
**For the Period Ended June 30, 2017**

**Financial Highlights – Schedules of Net Revenues in Accordance with Bond Resolution**

Combined Systems

- Total revenues increased \$6.4 million or 2.1% due primarily to an increase in electric, water and wastewater. These increases were offset by decreases in gas and telecommunication revenues.
- Total expenses increased \$8.9 million or 4.5% due primarily to an increase in electric fuel expense of \$7.7 million.
- The combined systems withdrew \$728,927 from rate stabilization for the period ended June 30, 2017, including budgeted transfers to and from rate stabilization.

Electric System

- Total revenues increased by \$5.1 million or 2.4% over the same period last year due primarily to an increase in the fuel adjustment offset by lower residential revenue.
- Fuel adjustment revenue increased \$7.7 million or 7.1% over the prior period due primarily to higher fuel expenses and a reduction in the fuel adjustment rate. The fuel adjustment rate was lowered from 73 mills to 70 mills in May 2016.

Fuel adjustment revenue is matched to fuel expenses with amounts over collected deferred in the fuel adjustment levelization balance and amounts under collected drawn down from the fuel adjustment levelization balance. Management is currently evaluating an increase to the fuel adjustment rate due to various factors including increased fuel costs.

- Other revenues decreased \$9.8 million and the transfer from rate stabilization increased \$12.1 million from the prior period due primarily to the release of GRU's ownership interest in the CR3 nuclear power plant to Duke Energy in the prior year.
- Fuel and purchased power expenses increased \$7.7 million or 7.1% over the prior period due primarily to increased natural gas cost and an increase in the use of the higher cost GREC biomass power due to a shutdown of Deerhaven 2 for repairs.

Fuel expenses are matched to fuel revenue with amounts over collected deferred in the fuel adjustment levelization balance and amounts under collected drawn down from the fuel adjustment levelization balance.

- The electric system withdrew \$7.9 million from rate stabilization for the period ended June 30, 2017, in addition to budgeted transfers from rate stabilization.

Water System

- Total revenues increased \$1.8 million or 7% due to an overall rate increase of 3% offset by a decrease in other revenues and other income/expenses.

**Gainesville Regional Utilities**  
**Financial Statements - Unaudited**  
**For the Period Ended June 30, 2017**

- Other revenues decreased \$1.1 million or 47.9% due to a reduction in connection and other charges. Fiscal year 2016 had significant commercial construction activities which increased connection charge fees.
- The water system contributed \$3.2 million to rate stabilization for the period ended June 30, 2017, in addition to budgeted transfers to rate stabilization.

**Wastewater System**

- Total revenues increased \$316,330 or 1% due to an increase in residential revenue offset by a decrease in other revenue.
- Other revenues decreased \$2.8 million or 70.4% due to a reduction in connection and other charges. Fiscal year 2016 had significant commercial construction activities which drove an increase in connection charges.
- The wastewater system contributed \$2.8 million to rate stabilization for the period ended June 30, 2017, in addition to budgeted transfers from rate stabilization.

**Gas System**

- Total revenues decreased \$411,995 or 2.2% due to an overall increase in gas rates of 9% offset by increased transfers to rate stabilization.
- Purchased gas revenues and the related fuel expense increased \$312,852 or 5.4% due to an increase in the usage of natural gas. Purchased gas adjustment revenue is matched to fuel expenses with amounts over collected deferred in the purchased gas adjustment levelization balance and amounts under collected drawn down from the purchased gas adjustment levelization balance.
- Administrative and general expenses decreased \$1.5 million or 36.3% due to a reduction in various categories.
- The gas system contributed \$1.6 million to rate stabilization for the period ended June 30, 2017, in addition to budgeted transfers to rate stabilization.

**Telecommunications System**

- Total revenues decreased \$451,652 or 5.6% due primarily to timing of recognition of tower lease revenue.
- The telecommunications system withdrew \$426,745 from rate stabilization for the period ended June 30, 2017.

# **Financial Statements**

**Gainesville Regional Utilities**  
**Statements of Net Position - Unaudited**  
**June 30, 2017 and 2016**

	June 30, 2017	June 30, 2016	Change (\$)	Change (%)
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 43,676,795	\$ 39,654,398	\$ 4,022,397	10.1%
Accounts receivable, net of allowance for uncollectible accounts of \$1,357,421 and \$1,366,670, respectively	45,455,752	46,195,612	(739,860)	(1.6%)
Inventories:				
Fuel	4,712,559	14,381,583	(9,669,024)	(67.2%)
Materials and supplies	7,829,515	7,148,308	681,207	9.5%
Fuel adjustment	1,678,146	(16,168,556)	17,846,702	(110.4%)
Other assets and regulatory assets	3,374,307	2,673,112	701,195	26.2%
Short term investments	75,725,608	113,552,063	(37,826,455)	(33.3%)
<b>Total current assets</b>	<b>182,452,682</b>	<b>207,436,520</b>	<b>(24,983,838)</b>	<b>(12.0%)</b>
Noncurrent assets:				
Net costs recoverable in future years - regulatory assets	57,864,611	42,508,545	15,356,066	36.1%
Unamortized debt issuance costs - regulatory assets	5,619,913	5,907,797	(287,884)	(4.9%)
Investment in The Energy Authority	2,051,739	2,140,717	(88,978)	(4.2%)
Pollution remediation - regulatory asset	11,949,691	12,990,004	(1,040,313)	(8.0%)
Other noncurrent assets and regulatory assets	4,769,713	7,463,847	(2,694,134)	(36.1%)
Long term investments	88,135,011	102,106,382	(13,971,371)	(13.7%)
Pension costs - regulatory asset	56,115,877	53,887,756	2,228,121	4.1%
<b>Total noncurrent assets</b>	<b>226,506,555</b>	<b>227,005,048</b>	<b>(498,493)</b>	<b>(0.2%)</b>
Capital assets:				
Utility plant in service	1,947,749,395	1,799,056,203	148,693,192	8.3%
Capital lease	1,006,808,754	1,006,808,754	-	0.0%
Less: accumulated depreciation and amortization	(906,943,650)	(816,151,602)	(90,792,048)	11.1%
	2,047,614,499	1,989,713,355	57,901,144	19.4%
Construction in progress	80,121,853	147,168,928	(67,047,075)	(45.6%)
<b>Net capital assets</b>	<b>2,127,736,352</b>	<b>2,136,882,283</b>	<b>(9,145,931)</b>	<b>(0.4%)</b>
<b>Total assets</b>	<b>2,536,695,589</b>	<b>2,571,323,851</b>	<b>(34,628,262)</b>	<b>(1.3%)</b>
<b>Deferred outflows of resources:</b>				
Unamortized loss on refunding of bonds	22,786,465	25,614,834	(2,828,369)	(11.0%)
Accumulated decrease in fair value of hedging derivatives	56,950,371	85,885,678	(28,935,307)	(33.7%)
Pension costs	20,954,810	22,174,505	(1,219,695)	(5.5%)
<b>Total deferred outflows of resources</b>	<b>100,691,646</b>	<b>133,675,017</b>	<b>(32,983,371)</b>	<b>(24.7%)</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 2,637,387,235</b>	<b>\$ 2,704,998,868</b>	<b>\$ (67,611,633)</b>	<b>(2.5%)</b>

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**Gainesville Regional Utilities**  
**Statements of Net Position - Unaudited (concluded)**  
**June 30, 2017 and 2016**

	June 30, 2017	June 30, 2016	Change (\$)	Change (%)
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 16,296,719	\$ 12,620,150	\$ 3,676,569	29.1%
Fuels payable	11,760,611	12,447,469	(686,858)	(5.5%)
Due to other funds of the City	2,890,608	2,819,373	71,235	2.5%
Capital lease - current	4,680,250	4,474,695	205,555	4.6%
Other liabilities and regulatory liabilities	2,123,547	1,282,765	840,782	65.5%
Total current liabilities	<u>37,751,735</u>	<u>33,644,452</u>	<u>4,107,283</u>	<u>12.2%</u>
Payable from restricted assets:				
Utility deposits	10,186,877	9,860,606	326,271	3.3%
Utilities system revenue bonds - current	18,120,000	17,535,000	585,000	3.3%
Commercial paper notes - current	5,900,000	5,600,000	300,000	5.4%
Accrued interest payable	6,761,352	6,899,089	(137,737)	(2.0%)
Total payable from restricted assets	<u>40,968,229</u>	<u>39,894,695</u>	<u>1,073,534</u>	<u>2.7%</u>
Long-term debt:				
Utility system revenue bonds	853,420,000	871,540,000	(18,120,000)	(2.1%)
Commercial paper notes	53,000,000	53,900,000	(900,000)	(1.7%)
Capital lease	941,269,071	959,678,852	(18,409,781)	(1.9%)
Unamortized bond premium/discount	17,355,646	18,262,163	(906,517)	(5.0%)
Fair value of derivative instruments	60,756,967	91,937,638	(31,180,671)	(33.9%)
Total long-term debt	<u>1,925,801,684</u>	<u>1,995,318,653</u>	<u>(69,516,969)</u>	<u>(3.5%)</u>
Noncurrent liabilities:				
Reserve for insurance claims	3,337,000	3,337,000	-	0.0%
Reserve for environmental liability	266,000	266,000	-	0.0%
Pension liability	71,325,377	76,062,261	(4,736,884)	(6.2%)
Total noncurrent liabilities	<u>74,928,377</u>	<u>79,665,261</u>	<u>(4,736,884)</u>	<u>(5.9%)</u>
Total liabilities	<u>2,079,450,025</u>	<u>2,148,523,061</u>	<u>(69,073,036)</u>	<u>(3.2%)</u>
Deferred inflows of resources:				
Rate stabilization	68,053,970	78,010,200	(9,956,230)	(12.8%)
Pension costs	5,745,310	-	5,745,310	-
Total deferred inflows of resources	<u>73,799,280</u>	<u>78,010,200</u>	<u>(4,210,920)</u>	<u>(5.4%)</u>
Net position				
Net investment in capital assets	282,402,596	273,442,262	8,960,334	3.3%
Restricted	65,183,365	79,338,364	(14,154,999)	(17.8%)
Unrestricted	136,551,969	125,684,981	10,866,988	8.6%
Total net position	<u>484,137,930</u>	<u>478,465,607</u>	<u>5,672,323</u>	<u>1.2%</u>
<b>Total liabilities, deferred inflows of resources and net position</b>	<u>\$ 2,637,387,235</u>	<u>\$ 2,704,998,868</u>	<u>\$ (67,611,633)</u>	<u>(2.5%)</u>

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**Gainesville Regional Utilities**  
**Statements of Revenues, Expenses, and Changes in Net Position - Unaudited**  
**For the Periods Ended June 30, 2017 and 2016**

	<b>June 30, 2017</b>	<b>June 30, 2016</b>
Operating revenues:		
Sales and service charges	\$ 293,284,680	\$ 270,945,464
Transfers (to) from rate stabilization	6,023,418	(6,295,659)
Amounts to be recovered from future revenue	25,170,219	25,170,219
Other operating revenue	7,663,522	19,189,370
Total operating revenues	332,141,839	309,009,394
Operating expenses:		
Operation and maintenance	174,161,743	162,075,163
Administrative and general	32,974,781	36,028,868
Depreciation and amortization	74,201,411	71,964,765
Total operating expenses	281,337,935	270,068,796
Operating income	50,803,904	38,940,598
Non-operating income (expense):		
Interest expense, net of AFUDC	(25,392,198)	(25,770,099)
Other interest related income, BABs	2,654,101	2,686,265
Other income (expense)	(1,477,686)	12,535,868
Total non-operating income (expense)	(24,215,783)	(10,547,966)
Income before capital contributions and transfers	26,588,121	28,392,632
Capital contributions:		
Contributions from third parties	7,504,762	1,660,651
Reduction of plant costs recovered through contributions	(58,390)	(101,247)
Net capital contributions	7,446,372	1,559,404
Transfer to City of Gainesville General Fund	(26,860,507)	(26,592,045)
Change in net position	7,173,986	3,359,991
Net position - beginning of year	476,963,944	475,105,616
Net position - end of period	\$ 484,137,930	\$ 478,465,607

**Gainesville Regional Utilities**  
**Statements of Cash Flows - Unaudited**  
**For the Periods Ended June 30, 2017 and 2016**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Operating activities:		
Cash received from customers	\$ 297,782,939	\$ 270,715,520
Cash payments to suppliers for goods and services	(186,099,890)	(151,867,847)
Cash payments to employees for services	(39,547,438)	(40,757,279)
Cash payments for operating transactions with other funds	(5,521,611)	(5,301,854)
Other operating receipts	13,686,940	12,893,713
Net cash provided by operating activities	<u>80,300,940</u>	<u>85,682,253</u>
Noncapital financing activities:		
Transfer to City of Gainesville General Fund	(26,860,507)	(26,592,045)
Net cash used by noncapital financing activities	<u>(26,860,507)</u>	<u>(26,592,045)</u>
Capital and related financing activities:		
Principal repayments and refunding on long-term debt, net	(23,135,000)	(22,205,000)
Interest paid on long-term debt	(37,147,611)	(37,677,355)
Proceeds from interest rebates, BABs	2,654,101	2,686,265
Acquisition and construction of fixed assets (including allowance for funds used during construction)	(60,638,757)	(40,891,802)
Proceeds from new debt and commercial paper	5,000,000	-
Other income	(1,477,686)	2,596,320
Net cash used by capital and related financing activities	<u>(114,744,953)</u>	<u>(95,491,572)</u>
Investing activities:		
Interest paid (received)	27,146	(450,358)
Purchase of investments	(207,322,000)	(303,091,264)
Investments in The Energy Authority	(3,769,687)	(4,657,806)
Distributions from The Energy Authority	3,820,629	5,078,967
Proceeds from investments	262,689,454	286,943,264
Proceeds from CR3 settlement	-	10,177,429
Net cash provided by investing activities	<u>55,445,542</u>	<u>(5,999,768)</u>
Net change in cash and cash equivalents	(5,858,978)	(42,401,132)
Cash and cash equivalents, beginning of year	49,535,773	81,595,541
Cash and cash equivalents, end of period	<u>\$ 43,676,795</u>	<u>\$ 39,194,409</u>

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**Gainesville Regional Utilities**  
**Statements of Cash Flows - Unaudited (concluded)**  
**For the Periods Ended June 30, 2017 and 2016**

	<b>June 30, 2017</b>	<b>June 30, 2016</b>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 50,803,904	\$ 38,940,598
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	74,201,411	71,964,765
Net costs to be recovered in future rates	(11,440,688)	(12,043,681)
Change in:		
Accounts receivable	3,895,619	(1,439,835)
Inventories	2,566,698	1,290,292
Other assets and regulatory assets	(1,551,314)	(421,073)
Restricted and internally designated assets	(13,083,148)	(13,643,828)
Noncurrent assets	876,335	834,243
Accounts payable and accrued liabilities	(5,268,462)	(1,628,279)
Due to other funds of the City	1,400,664	(1,300,693)
Fuel adjustment	(16,509,710)	(2,631,168)
Other liabilities and regulatory liabilities	(169,591)	(1,744,640)
Utility deposits	602,640	1,209,893
Rate stabilization	(6,023,418)	6,295,659
Net cash provided by operating activities	\$ 80,300,940	\$ 85,682,253
Non-cash capital and related financing activities and investing activities:		
Contribution of capital assets	\$ 7,446,372	\$ 1,559,404
Change in capital lease liability	\$ (13,729,531)	\$ (13,126,538)
Acquisition of utility plant in service with construction fund payable	\$ (9,213,425)	\$ (3,778,131)
Change in utility plant in service	\$ 81,095,183	\$ 15,386,003
Change in accumulated decrease in fair value of hedging derivatives - interest rate swaps	\$ 24,194,251	\$ (13,947,084)
Change in accumulated decrease in fair value of hedging derivatives - fuel options and futures	\$ 217,877	\$ 1,711,419
Change in fair value of investments	\$ 406,563	\$ (134,685)
Change in fair value of derivatives	\$ (26,423,327)	\$ 14,894,871
Other	\$ (13,272)	\$ (48,388)

**Gainesville Regional Utilities  
Combined Utility Systems  
Schedules of Combined Net Revenues in Accordance with Bond Resolution - Unaudited  
For the Periods Ended June 30, 2017 and 2016**

	June 30, 2017	June 30, 2016	Change (\$)	Change (%)
<b>Revenues:</b>				
Sales of electricity	\$ 87,440,903	\$ 93,232,696	\$ (5,791,793)	(6.2%)
Fuel adjustment	117,103,638	109,381,555	7,722,083	7.1%
Sales for resale	2,972,007	813,436	2,158,571	265.4%
Transfer from/(to) rate stabilization	7,360,094	(4,766,909)	12,127,003	(254.4%)
Other revenue	3,837,184	13,607,712	(9,770,528)	(71.8%)
Other income (expense)	(619,559)	691,490	(1,311,049)	(189.6%)
Build America Bonds	1,467,782	1,487,568	(19,786)	(1.3%)
<b>Total electric system revenues</b>	<b>219,562,049</b>	<b>214,447,548</b>	<b>5,114,501</b>	<b>2.4%</b>
Sales of water	27,900,252	24,098,210	3,802,042	15.8%
Transfer from/(to) rate stabilization	(736,018)	(886,517)	150,499	(17.0%)
Other revenue	1,208,050	2,317,142	(1,109,092)	(47.9%)
Other income (expense)	(953,864)	61,354	(1,015,218)	(1,654.7%)
Build America Bonds	412,310	416,883	(4,573)	(1.1%)
<b>Total water system revenues</b>	<b>27,830,730</b>	<b>26,007,072</b>	<b>1,823,658</b>	<b>7.0%</b>
Sales of wastewater services	31,788,919	28,922,174	2,866,745	9.9%
Transfer from/(to) rate stabilization	224,281	(516,327)	740,608	(143.4%)
Other revenue	1,194,162	4,033,572	(2,839,410)	(70.4%)
Other income (expense)	(355,385)	92,497	(447,882)	(484.2%)
Build America Bonds	466,668	470,399	(3,731)	(0.8%)
<b>Total wastewater system revenues</b>	<b>33,318,645</b>	<b>33,002,315</b>	<b>316,330</b>	<b>1.0%</b>
Sales of gas	11,895,181	10,831,463	1,063,718	9.8%
Purchased gas adjustment	6,058,654	5,745,802	312,852	5.4%
Transfer from/(to) rate stabilization	(824,938)	588,239	(1,413,177)	(240.2%)
Other revenue	630,624	853,000	(222,376)	(26.1%)
Other income (expense)	(52,217)	96,721	(148,938)	(154.0%)
Build America Bonds	307,341	311,415	(4,074)	(1.3%)
<b>Total gas system revenues</b>	<b>18,014,645</b>	<b>18,426,640</b>	<b>(411,995)</b>	<b>(2.2%)</b>
Sales of services	7,884,766	8,782,566	(897,800)	(10.2%)
Transfer from/(to) rate stabilization	-	(714,145)	714,145	(100.0%)
Other revenue	3,068	266	2,802	1,053.4%
Other income (expense)	(233,130)	37,669	(270,799)	(718.9%)
<b>Total telecommunications system revenues</b>	<b>7,654,704</b>	<b>8,106,356</b>	<b>(451,652)</b>	<b>(5.6%)</b>
<b>Total revenues</b>	<b>306,380,773</b>	<b>299,989,931</b>	<b>6,390,842</b>	<b>2.1%</b>

**Gainesville Regional Utilities  
Combined Utility Systems  
Schedules of Combined Net Revenues in Accordance with Bond Resolution - Unaudited  
For the Periods Ended June 30, 2017 and 2016  
Page 2**

	June 30, 2017	June 30, 2016	Change (\$)	Change (%)
<b>Operation, maintenance and administrative expenses:</b>				
Fuel expenses	117,103,638	109,381,555	7,722,083	7.1%
Operation and maintenance	30,782,967	29,784,798	998,169	3.4%
Administrative and general	18,928,544	19,538,998	(610,454)	(3.1%)
<b>Total electric system expenses</b>	<b>166,815,149</b>	<b>158,705,351</b>	<b>8,109,798</b>	<b>5.1%</b>
Operation and maintenance	6,598,228	5,365,529	1,232,699	23.0%
Administrative and general	4,368,251	4,689,000	(320,749)	(6.8%)
<b>Total water system expenses</b>	<b>10,966,479</b>	<b>10,054,529</b>	<b>911,950</b>	<b>9.1%</b>
Operation and maintenance	8,264,285	7,233,749	1,030,536	14.2%
Administrative and general	4,698,234	4,685,611	12,623	0.3%
<b>Total wastewater system expenses</b>	<b>12,962,519</b>	<b>11,919,360</b>	<b>1,043,159</b>	<b>8.8%</b>
Fuel Expense - Purchased Gas	6,058,654	5,745,802	312,852	5.4%
Operation and maintenance	1,558,492	1,462,593	95,899	6.6%
Administrative and general	2,585,630	4,057,776	(1,472,146)	(36.3%)
<b>Total gas system expenses</b>	<b>10,202,776</b>	<b>11,266,171</b>	<b>(1,063,395)</b>	<b>(9.4%)</b>
Operation and maintenance	3,559,768	3,099,487	460,281	14.9%
Administrative and general	1,597,471	2,134,371	(536,900)	(25.2%)
<b>Total telecommunications system expenses</b>	<b>5,157,239</b>	<b>5,233,858</b>	<b>(76,619)</b>	<b>(1.5%)</b>
<b>Total expenses</b>	<b>206,104,162</b>	<b>197,179,269</b>	<b>8,924,893</b>	<b>4.5%</b>
<b>Net revenues in accordance with bond resolution:</b>				
Total electric system	52,746,900	55,742,197	(2,995,297)	(5.4%)
Total water system	16,864,251	15,952,543	911,708	5.7%
Total wastewater system	20,356,126	21,082,955	(726,829)	(3.4%)
Total gas system	7,811,869	7,160,469	651,400	9.1%
Total telecommunications system	2,497,465	2,872,498	(375,033)	(13.1%)
<b>Total net revenues in accordance with bond resolution</b>	<b>100,276,610</b>	<b>102,810,662</b>	<b>(2,534,052)</b>	<b>(2.5%)</b>
<b>Less:</b>				
Debt service	44,429,870	43,889,209	540,661	1.2%
Debt Service - UPIF	(3,750,000)	-	(3,750,000)	-
UPIF Contributions	35,143,573	32,833,604	2,309,969	7.0%
Transfer to City of Gainesville General Fund	26,860,507	26,592,045	268,462	1.0%
<b>Net impact to rate stabilization - addition (reduction)</b>	<b>\$ (2,407,340)</b>	<b>\$ (504,196)</b>	<b>\$ (1,903,144)</b>	<b>377.5%</b>

**Gainesville Regional Utilities**  
**Electric Utility System**  
**Schedules of Net Revenues in Accordance with Bond Resolution - Unaudited**  
**For the Periods Ended June 30, 2017 and 2016**

	June 30, 2017	June 30, 2016	Change (\$)	Change (%)
<b>Revenues:</b>				
Residential	\$ 31,106,279	\$ 33,471,226	\$ (2,364,947)	(7.1%)
Non-residential	44,088,467	43,560,846	527,621	1.2%
Fuel adjustment	117,103,638	109,381,555	7,722,083	7.1%
Sales for resale	2,972,007	813,436	2,158,571	265.4%
Utility surcharge	1,893,465	2,131,144	(237,679)	(11.2%)
Other electric sales	10,352,692	14,069,480	(3,716,788)	(26.4%)
<b>Total sales of electricity</b>	<b>207,516,548</b>	<b>203,427,687</b>	<b>4,088,861</b>	<b>2.0%</b>
Transfer from/(to) rate stabilization	7,360,094	(4,766,909)	12,127,003	(254.4%)
Other revenue	3,837,184	13,607,712	(9,770,528)	(71.8%)
Other income (expense)	(619,559)	691,490	(1,311,049)	(189.6%)
Build America Bonds	1,467,782	1,487,568	(19,786)	(1.3%)
<b>Total revenues</b>	<b>219,562,049</b>	<b>214,447,548</b>	<b>5,114,501</b>	<b>2.4%</b>
<b>Operation, maintenance and administrative expenses:</b>				
Fuel expenses	117,103,638	109,381,555	7,722,083	7.1%
Power production	20,097,817	20,415,086	(317,269)	(1.6%)
Transmission and distribution	9,853,830	9,201,917	651,913	7.1%
Interchange	831,320	167,795	663,525	395.4%
Administrative and general	18,928,544	19,538,998	(610,454)	(3.1%)
<b>Total operation, maintenance, and administrative expenses</b>	<b>166,815,149</b>	<b>158,705,351</b>	<b>8,109,798</b>	<b>5.1%</b>
<b>Total net revenues in accordance with bond resolution</b>	<b>52,746,900</b>	<b>55,742,197</b>	<b>(2,995,297)</b>	<b>(5.4%)</b>
<b>Less:</b>				
Debt service	29,200,035	27,413,331	1,786,704	6.5%
Debt Service - UPIF	(3,750,000)	-	(3,750,000)	-
UPIF Contributions	20,284,633	18,551,041	1,733,592	9.3%
Transfer to City of Gainesville General Fund	15,820,839	14,758,585	1,062,254	7.2%
<b>Net impact to rate stabilization - addition (reduction)</b>	<b>\$ (8,808,607)</b>	<b>\$ (4,980,760)</b>	<b>\$ (3,827,847)</b>	<b>(76.9%)</b>

**Gainesville Regional Utilities  
Water Utility System  
Schedules of Net Revenues in Accordance with Bond Resolution - Unaudited  
For the Periods Ended June 30, 2017 and 2016**

	June 30, 2017	June 30, 2016	Change (\$)	Change (%)
<b>Revenues:</b>				
Residential	\$ 17,486,657	\$ 14,867,089	\$ 2,619,568	17.6%
Non-residential	8,352,809	7,429,738	923,071	12.4%
Utility surcharge	2,060,786	1,801,383	259,403	14.4%
<b>Total sales of water</b>	<b>27,900,252</b>	<b>24,098,210</b>	<b>3,802,042</b>	<b>15.8%</b>
Transfer from/(to) rate stabilization	(736,018)	(886,517)	150,499	(17.0%)
Other revenue	1,208,050	2,317,142	(1,109,092)	(47.9%)
Other income (expense)	(953,864)	61,354	(1,015,218)	(1,654.7%)
Build America Bonds	412,310	416,883	(4,573)	(1.1%)
<b>Total revenues</b>	<b>27,830,730</b>	<b>26,007,072</b>	<b>1,823,658</b>	<b>7.0%</b>
<b>Operation, maintenance and administrative expenses:</b>				
Transmission and distribution	2,078,030	1,564,413	513,617	32.8%
Treatment	4,520,199	3,801,116	719,083	18.9%
Administrative and general	4,368,251	4,689,000	(320,749)	(6.8%)
<b>Total operation, maintenance, and administrative expenses</b>	<b>10,966,479</b>	<b>10,054,529</b>	<b>911,950</b>	<b>9.1%</b>
<b>Total net revenues in accordance with bond resolution</b>	<b>16,864,251</b>	<b>15,952,543</b>	<b>911,708</b>	<b>5.7%</b>
<b>Less:</b>				
Debt service	4,293,576	4,486,017	(192,441)	(4.3%)
UPIF Contributions	5,282,034	5,068,625	213,409	4.2%
Transfer to City of Gainesville General Fund	4,311,111	4,314,559	(3,448)	(0.1%)
<b>Net impact to rate stabilization - addition (reduction)</b>	<b>\$ 2,977,530</b>	<b>\$ 2,083,342</b>	<b>\$ 894,188</b>	<b>42.9%</b>

**Gainesville Regional Utilities  
Wastewater Utility System  
Schedules of Net Revenues in Accordance with Bond Resolution - Unaudited  
For the Periods Ended June 30, 2017 and 2016**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Change (\$)</u>	<u>Change (%)</u>
<b>Revenues:</b>				
Residential	\$ 21,650,305	\$ 19,622,430	\$ 2,027,875	10.3%
Non-residential	7,892,161	7,173,971	718,190	10.0%
Utility surcharge	2,246,453	2,125,773	120,680	5.7%
<b>Total sales of services</b>	<b><u>31,788,919</u></b>	<b><u>28,922,174</u></b>	<b><u>2,866,745</u></b>	<b><u>9.9%</u></b>
Transfer from/(to) rate stabilization	224,281	(516,327)	740,608	(143.4%)
Other revenue	1,194,162	4,033,572	(2,839,410)	(70.4%)
Other income (expense)	(355,385)	92,497	(447,882)	(484.2%)
Build America Bonds	466,668	470,399	(3,731)	(0.8%)
<b>Total revenues</b>	<b><u>33,318,645</u></b>	<b><u>33,002,315</u></b>	<b><u>316,330</u></b>	<b><u>1.0%</u></b>
<b>Operation, maintenance and administrative expenses:</b>				
Collections	3,552,482	2,599,227	953,255	36.7%
Treatment	4,711,803	4,634,522	77,281	1.7%
Administrative and general	4,698,234	4,685,611	12,623	0.3%
<b>Total operation, maintenance, and administrative expenses</b>	<b><u>12,962,519</u></b>	<b><u>11,919,360</u></b>	<b><u>1,043,159</u></b>	<b><u>8.8%</u></b>
<b>Total net revenues in accordance with bond resolution</b>	<b><u>20,356,126</u></b>	<b><u>21,082,955</u></b>	<b><u>(726,829)</u></b>	<b><u>(3.4%)</u></b>
<b>Less:</b>				
Debt service	5,412,316	5,649,486	(237,170)	(4.2%)
UPIF Contributions	7,074,186	7,002,794	71,392	1.0%
Transfer to City of Gainesville General Fund	5,425,823	5,697,346	(271,523)	(4.8%)
<b>Net impact to rate stabilization - addition (reduction)</b>	<b><u>\$ 2,443,801</u></b>	<b><u>\$ 2,733,329</u></b>	<b><u>\$ (289,528)</u></b>	<b><u>(10.6%)</u></b>



**Gainesville Regional Utilities  
Gas Utility System  
Schedules of Net Revenues in Accordance with Bond Resolution - Unaudited  
For the Periods Ended June 30, 2017 and 2016**

	June 30, 2017	June 30, 2016	Change (\$)	Change (%)
<b>Revenues:</b>				
Residential	\$ 6,184,348	\$ 5,752,084	\$ 432,264	7.5%
Non-residential	4,367,440	3,719,209	648,231	17.4%
Purchased gas adjustment	6,058,654	5,745,802	312,852	5.4%
Utility surcharge	393,255	367,144	26,111	7.1%
Other gas sales	950,138	993,026	(42,888)	(4.3%)
<b>Total sales of gas</b>	<b>17,953,835</b>	<b>16,577,265</b>	<b>1,376,570</b>	<b>8.3%</b>
Transfer from/(to) rate stabilization	(824,938)	588,239	(1,413,177)	(240.2%)
Other revenue	630,624	853,000	(222,376)	(26.1%)
Other income (expense)	(52,217)	96,721	(148,938)	(154.0%)
Build America Bonds	307,341	311,415	(4,074)	(1.3%)
<b>Total revenues</b>	<b>18,014,645</b>	<b>18,426,640</b>	<b>(411,995)</b>	<b>(2.2%)</b>
<b>Operation, maintenance and administrative expenses:</b>				
Fuel Expense - Purchased Gas	6,058,654	5,745,802	312,852	5.4%
Operation and Maintenance	1,558,492	1,462,593	95,899	6.6%
Administrative and general	2,585,630	4,057,776	(1,472,146)	(36.3%)
<b>Total operation, maintenance, and administrative expenses</b>	<b>10,202,776</b>	<b>11,266,171</b>	<b>(1,063,395)</b>	<b>(9.4%)</b>
<b>Total net revenues in accordance with bond resolution</b>	<b>7,811,869</b>	<b>7,160,469</b>	<b>651,400</b>	<b>9.1%</b>
<b>Less:</b>				
Debt service	3,018,708	3,275,346	(256,638)	(7.8%)
UPIF Contributions	2,320,295	2,118,378	201,917	9.5%
Transfer to City of Gainesville General Fund	1,020,699	1,821,555	(800,856)	(44.0%)
<b>Net impact to rate stabilization - addition (reduction)</b>	<b>\$ 1,452,167</b>	<b>\$ (54,810)</b>	<b>\$ 1,506,977</b>	<b>2,749.5%</b>

**Gainesville Regional Utilities  
Telecommunications System  
Schedules of Net Revenues in Accordance with Bond Resolution - Unaudited  
For the Periods Ended June 30, 2017 and 2016**

	June 30, 2017	June 30, 2016	Change (\$)	Change (%)
<b>Revenues:</b>				
Residential	\$ 35,933	\$ 40,932	\$ (4,999)	(12.2%)
Non-Residential	7,848,832	8,741,634	(892,801)	(10.2%)
<b>Total sales of services</b>	<b>7,884,766</b>	<b>8,782,566</b>	<b>(897,800)</b>	<b>(10.2%)</b>
Transfer from/(to) rate stabilization	-	(714,145)	714,145	(100.0%)
Other revenue	3,068	266	2,802	1,053.4%
Other income (expense)	(233,130)	37,669	(270,799)	(718.9%)
<b>Total revenues</b>	<b>7,654,704</b>	<b>8,106,356</b>	<b>(451,652)</b>	<b>(5.6%)</b>
<b>Operation, maintenance and administrative expenses:</b>				-
Operation and maintenance	3,559,768	3,099,487	460,281	14.9%
Administrative and general	1,597,471	2,134,371	(536,900)	(25.2%)
<b>Total operation, maintenance, and administrative expenses</b>	<b>5,157,239</b>	<b>5,233,858</b>	<b>(76,619)</b>	<b>(1.5%)</b>
<b>Total net revenues in accordance with bond resolution</b>	<b>2,497,465</b>	<b>2,872,498</b>	<b>(375,033)</b>	<b>(13.1%)</b>
<b>Less:</b>				
Debt service	2,505,235	3,065,029	(559,794)	(18.3%)
UPIF Contributions	182,425	92,766	89,659	96.7%
Transfer to City of Gainesville General Fund	282,035	-	282,035	-
<b>Net impact to rate stabilization - addition (reduction)</b>	<b>\$ (472,230)</b>	<b>\$ (285,297)</b>	<b>\$ (186,933)</b>	<b>(65.5%)</b>

# **Supplementary Data**

**Gainesville Regional Utilities**  
**Fuel Adjustment Levelization**  
**For the Period Ended June 30, 2017**

	<b>Actual</b>
Fuel Revenues	\$ 101,813,240
Fuel Expenses	117,103,638
<b>To (From) Fuel Adjustment Levelization</b>	<b>\$ (15,290,397)</b>
Fuel Adjustment Beginning Balance	\$ 12,902,279
To (From) Fuel Adjustment Levelization	(15,290,397)
<b>Fuel Adjustment Ending Balance</b>	<b>\$ (2,388,118)</b>

**Gainesville Regional Utilities**  
**Purchased Gas Adjustment (PGA) Levelization**  
**For the Period Ended June 30, 2017**

	<b>Actual</b>
Purchased Gas Revenues	\$ 4,839,341
Purchased Gas Expenses	6,058,654
<b>To (From) PGA Levelization</b>	<b>\$ (1,219,313)</b>
PGA Beginning Balance	\$ 1,929,285
To (From) PGA Levelization	(1,219,313)
<b>PGA Ending Balance</b>	<b>\$ 709,973</b>

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**APPENDIX C-1**

**COMPOSITE OF THE RESOLUTION**

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CITY OF GAINESVILLE, FLORIDA

Utilities System Revenue Bonds

AMENDED AND RESTATED UTILITIES SYSTEM REVENUE BOND RESOLUTION

Adopted January 30, 2003

(as amended by the Thirteenth Supplemental Utilities System Revenue Bond Resolution adopted on July 14, 2003 and Resolution No. 170405 adopted on September 21, 2017)

C-11-1

Table with 2 columns: Section Title and Page. Includes sections like ARTICLE I DEFINITIONS AND STATUTORY AUTHORITY, ARTICLE II AUTHORIZATION AND ISSUANCE OF BONDS, ARTICLE III GENERAL TERMS AND PROVISIONS OF BONDS, and ARTICLE IV REDEMPTION OF BONDS.

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**AMENDED AND RESTATED  
UTILITIES SYSTEM  
REVENUE BOND RESOLUTION**

(as amended by the Thirteenth Supplemental  
Utilities System Revenue Bond Resolution  
adopted on July 14, 2003)

**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 heretofore has been amended and supplemented and as it hereafter may be amended and supplemented, being referred to herein sometimes as the “Bond Resolution”) for the purpose of authorizing the issuance of Bonds (as defined in the Bond Resolution) from time to time to provide for the payment of Costs of Acquisition and Construction of the System (as such terms are defined in the Bond Resolution); and

**WHEREAS**, Section 1102 of the Bond Resolution provides that, except as otherwise provided therein, any modification or amendment of the Bond Resolution and of the rights and obligations of the City and of the holders of the Bonds thereunder, in any particular, may be made by a Supplemental Resolution (as defined in the Bond Resolution), with the written consent given as provided in Section 1103 of the Bond Resolution of the holders of not less than a majority in principal amount of the Bonds Outstanding (as defined in the Bond Resolution) at the time such consent is given; and

**WHEREAS**, the City desires to amend and restate the 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 Bonds Outstanding as provided in said Section 1102 of the 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 Bond Resolution as provided herein of the holders of not less than a majority in principal amount of the Bonds then Outstanding shall be filed with the Trustee (as defined in the Bond Resolution) in the manner provided in Section 1103 of the Bond Resolution, then on the date on which the conditions set forth in Section 1103 of the Bond Resolution with respect thereto shall be satisfied (the “Effective Date”), the Bond Resolution shall be amended and restated to read in its entirety as set forth herein.

**ARTICLE I**

**DEFINITIONS AND STATUTORY AUTHORITY**

**SECTION 101. Definitions.** The following terms shall, for all purposes of the Resolution, have the following meanings:

**Accreted Value** shall mean, as of any date of computation with respect to any Capital Appreciation 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 Resolution authorizing such Capital Appreciation Bond on which interest on such Bond is to be compounded (hereinafter in this definition, a “Periodic Compounding Date”) next preceding the date of computation or the date of computation if a Periodic Compounding Date, such interest to accrue at the interest rate per annum of the Capital Appreciation Bonds set forth in the Supplemental Resolution authorizing such Bonds, compounded periodically on each Periodic

Compounding Date, plus, if such date of computation shall not be a Periodic Compounding Date, a portion of the difference between the Accreted Value as of the immediately preceding Periodic Compounding Date (or the date of original issuance if the date of computation is prior to the first Periodic Compounding Date succeeding the date of original issuance) and the Accreted Value as of the immediately succeeding Periodic Compounding Date, calculated based upon an assumption that, unless otherwise provided in the Supplemental Resolution authorizing such Capital Appreciation Bonds, Accreted Value accrues in equal daily amounts on the basis of a year of twelve 30-day months.

**Accrued Aggregate Debt Service** shall mean, as of any date of calculation, an amount equal to the sum of (a) the amounts of accrued Debt Service with respect to all Series of Bonds, calculating the accrued Debt Service with respect to each Series at an amount equal to the sum of (i) interest component of Debt Service on the Bonds of such Series accrued and unpaid and to accrue to the end of the then current calendar month, and (ii) Principal Installments due and unpaid and that portion of the Principal Installments for such Series next due which would have accrued (if deemed to accrue in the manner set forth in the definition of Debt Service) to the end of such calendar month; provided, however, that (i) there shall be excluded from the calculation of Accrued Aggregate Debt Service any Principal Installments which are Refundable Principal Installments, (ii) the principal and interest portions of the Accreted Value of Capital Appreciation Bonds or the Appreciated Value of Deferred Income Bonds shall be included in the calculation of Accrued Aggregate Debt Service at the times and in the manner provided in subsection 1 of Section 208 and (iii) if the calculation of the Debt Service Reserve Requirement for any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund takes into account Accrued Aggregate Debt Service, then, for purposes of such calculation, Accrued Aggregate Debt Service shall be calculated only with respect to the Bonds of the Series secured thereby and (b) the amounts of accrued Debt Service with respect to all Parity Hedging Contract Obligations to the extent such amounts are not taken into account in the calculation of Debt Service on Bonds.

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

**Additionally Secured Series** shall mean a Series of Bonds for which the payment of the principal or sinking fund Redemption Price, if any, of, and interest on, the Bonds of such Series shall be secured, in addition to the pledge created pursuant to subsection 1 of Section 501 hereof in favor of all of the Bonds, by amounts on deposit in a separate subaccount to be designated therefor in the Debt Service Reserve Account in the Debt Service Fund.

**Adjusted Aggregate Debt Service** for any period shall mean, as of any date of calculation, the Aggregate Debt Service for such period except that (a) if any Refundable Principal Installment for any Series of Bonds is included in Aggregate Debt Service for such period, Adjusted Aggregate Debt Service shall mean Aggregate Debt Service determined (i) in the case of Refundable Principal Installments other than Parity Commercial Paper Notes and Parity Medium-Term Notes, as if each such Refundable Principal Installment had been payable, over a period extending from the due date of such Principal Installment through the later of (x) the 30th anniversary of the issuance of such Series of Bonds or (y) the 10th anniversary of the due date of such Refundable Principal Installment, in installments which would have required equal annual payments of principal and interest over such period and (ii) in the case of Refundable Principal Installments relating to Parity Commercial Paper Notes or Parity Medium-Term Notes, in accordance with the then current Commercial Paper Payment Plan or Medium-Term Note Payment Plan, as applicable, with respect thereto and (b) the principal and interest portions of the Accreted Value of Capital Appreciation Bonds or the Appreciated Value of Deferred Income Bonds shall be included in the calculation of Adjusted Aggregate Debt Service at the times and in the manner provided in subsection 1 of Section 208 hereof. Interest deemed payable in any Fiscal Year after the actual due date of any Refundable Principal Installment of any Series of Bonds shall be calculated at such rate of interest as the City, or a

banking or financial institution selected by the City, determines would be a reasonable estimate of the rate of interest that would be borne on Bonds maturing at the times determined in accordance with the provisions of the preceding sentence.

**Aggregate Debt Service** for any period shall mean, as of any date of calculation, except as otherwise provided in the definition of Debt Service, the sum of (a) the amounts of Debt Service for such period with respect to all Series of Bonds; provided, however, that, except as otherwise provided herein, (i) for purposes of estimating Aggregate Debt Service for any future period (X) any Variable Rate Bonds Outstanding during such period, the 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 Bonds or (2) the Certified Interest Rate applicable thereto and (Y) any Option Bonds Outstanding during such period shall be assumed to mature on the stated maturity date thereof, and (ii) the principal and interest portions of the Accreted Value of Capital Appreciation Bonds or the Appreciated Value of Deferred Income Bonds shall be included in the calculation of Aggregate Debt Service at the times and in the manner provided in subsection 1 of Section 208; and provided, further, that if the calculation of the Debt Service Reserve Requirement for any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund takes into account Aggregate Debt Service, then, for purposes of such calculation, Aggregate Debt Service shall be calculated only with respect to the Bonds of the Series secured thereby and (b) the amounts of Debt Service for such period with respect to all Parity Hedging Contract Obligations, to the extent such payments are not taken into account in the calculation of Debt Service on Bonds.

**Annual Budget** shall mean the annual budget of the System, as amended or supplemented, adopted or in effect for a particular Fiscal Year as provided in Section 708.

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

**Authorized Newspaper** shall mean a newspaper of general circulation in the Borough of Manhattan, City and State of New York or in the City of Gainesville, Florida (including, at such times as they are published, *The New York Times*, *The Daily Bond Buyer* or *The Wall Street Journal*) which is customarily published at least once a day for at least five days (other than legal holidays) in each calendar week, printed in the English language.

**Authorized Officer of the City** shall mean the Mayor, General Manager for Utilities, the Utility Chief Financial Officer or any other officer, employee or agent of the City authorized to perform specific acts or duties by resolution duly adopted by the City.

**Bond or 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 Resolution (including Parity Commercial Paper Notes, Parity Medium-Term Notes and Parity Reimbursement Obligations) but shall not mean Parity Hedging Contract Obligations or Subordinated Indebtedness.

**Bond Counsel** means a firm of attorneys which is nationally recognized as being experienced in matters relating to the validity of, and the state and federal income tax treatment of interest on, obligations of states and their political subdivisions and whose opinions are generally accepted by purchasers of municipal bonds, as selected by the City.

**Bondholder or Holder of Bonds** shall mean any person who shall be the registered owner of any fully registered Bond or Bonds.

**Bond Registrar** shall mean the Trustee or any other institution qualified to act in the capacity of Bond Registrar as set forth in Section 703 appointed by the City to perform the duties of Bond Registrar enumerated in such Section.

**Book Entry Bond** shall mean a Bond authorized to be issued to, and issued to and, except as provided in paragraph 4 of Section 309, restricted to being registered in the name of, a Securities Depository for the participants in such Securities Depository or the beneficial owners of such Bond.

**Business Day** shall mean unless otherwise provided by a Supplemental Resolution with respect to a particular Series of Bonds, means a day on which banking business is transacted in the city or cities in which the Trustee and Paying Agent have their respective designated corporate trust offices, on which the New York Stock Exchange is open and on which the City is open to transact business.

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

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

**City** shall mean the City of Gainesville, Florida.

**City Attorney** shall mean the City Attorney to the City, the Utilities Attorney or such other assistant City Attorney.

**Clerk** shall mean the Clerk of the City or any Deputy Clerk.

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

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

**Commission** shall mean the City Commission of the City of Gainesville, Florida.

**Connection Fees** shall mean all capital expansion fees, system improvement fees or other similar fees and charges, including, without limitation, impact fees and charges for "allowance for funds prudently invested," separately imposed by the City as a nonuser capacity charge for the proportionate share of the cost of expanding, oversizing, separating or constructing new additions to the System, and any income from the investment of funds derived therefrom.

**Construction Fund** shall mean the Construction Fund established in Section 502.

**Consulting Engineer**, in respect of any particular utility system, shall mean the independent engineer(s) or firm(s) at the time employed by the City and having a favorable reputation for skill and experience in the appropriate field of engineering of utility systems of comparable size and character as those forming parts of the System.

**Cost of Acquisition and Construction** shall mean the City's costs, expenses and liabilities paid or incurred or to be paid or incurred by the City in connection with the planning, engineering, designing, acquiring, constructing, installing, financing, operating, maintaining, retiring, decommissioning and disposing of the System or any part thereof and the obtaining of all governmental approvals, certificates, permits and licenses with respect thereto, including, but not limited to, any good faith or other similar payment or deposits required in connection with the purchase of such part of the System, the cost of acquisition by or for the City of real and personal property or any interests therein, costs of physical construction of such part of the System and costs of the City incidental to such construction or acquisition, the cost of acquisition of fuel or fuel inventory or facilities for the production or transportation of fuel and

working capital and reserves therefor and working capital and reserves for reload fuel and for additional fuel inventories, all costs relating to such part of the System, the cost of any indemnity or surety bonds and premiums on insurance, preliminary investigation and development costs, engineering fees and expenses, contractors' fees and expenses, the costs of labor, materials, equipment and utility services and supplies, legal and financial advisory fees and expenses, interest and financing costs, including, without limitation, bank commitment and letter of credit fees, bond insurance and indemnity premiums, discounts to the underwriters or other purchasers thereof, if any, all amounts required to be rebated to the United States of America in order to preserve the exclusion from gross income for federal income tax purposes of interest on tax-exempt Bonds, amounts required to be paid under any interest rate exchanges or swaps, cash flow exchanges, options, caps, floors or collars, in each case made in connection with the issuance of Bonds, Subordinated Indebtedness or other evidences of indebtedness of the City relating to the System, amounts owed under any Qualified Hedging Contract, fees and expenses of the Fiduciaries, administration and general overhead expense and costs of keeping, (to the extent and in the manner provided herein) accounts and making reports required by the Resolution prior to or in connection with the completion of construction of such part of the System, amounts, if any, required by the Resolution to be paid into the Debt Service Fund to provide, among other things, for interest accruing on Bonds and to provide for the Debt Service Reserve Requirement or to be paid into the Utilities Plant Improvement Fund or for payments when due (whether at the maturity of principal or the due date of interest or upon redemption) on any indebtedness of the City, including notes and Subordinated Indebtedness, incurred in respect of any of the foregoing, amounts, if any, required by a Supplemental Resolution to be paid into the Rate Stabilization Fund, and amounts required for working capital for the System and reserves therefor, and all federal, state and local taxes and payments in lieu of taxes legally required to be paid in connection with any part of the System and shall include reimbursements to the City for any of the above items theretofore paid by or on behalf of the City. It is intended that this definition be broadly construed to encompass all costs, expenses and liabilities of the City related to the System which on the date of the Resolution or in the future shall be permitted to be funded with the proceeds of Bonds pursuant to the provisions of Florida law.

**Co-Trustee** shall mean, if any, the co-trustee appointed pursuant to Article IX, and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Resolution.

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

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

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

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

**Debt Service** for any period shall mean, as of any date of calculation (a) with respect to any Series of Bonds, an amount equal to the sum of (i) interest accruing during such period on Bonds of

such Series, except to the extent that such interest is to be paid from deposits into the Debt Service Account in the Debt Service Fund made from the proceeds of Bonds, Subordinated Indebtedness or other evidences of indebtedness of the City (including amounts, if any, transferred thereto from the Construction Fund) and (ii) that portion of each Principal Installment for such Series which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such Series (or, (x) in the case of Bonds other than Parity Reimbursement Obligations, if (1) there shall be no such preceding Principal Installment due date or (2) such preceding Principal Installment due date is more than one year prior to the due date of such Principal Installment, then, from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Bonds of such Series, whichever date is later, and (y) in the case of Parity Reimbursement Obligations, in accordance with the terms thereof and the Supplemental Resolution authorizing such Parity Reimbursement Obligations), except to the extent that such Principal Installment is paid or to be paid from the proceeds of Bonds, Subordinated Indebtedness or other evidences of indebtedness of the City and (b) with respect to each Parity Hedging Contract Obligation, an amount equal to the sum of all net amounts owed thereunder by the City during such period, excluding, however, payment obligations taken into account below in the calculation of Debt Service on Bonds, and excluding Hedge Charges. Such interest and Principal Installments for such Series of Bonds shall be calculated on the assumption that (x) no Bonds (except for Option Bonds actually tendered for payment prior to the stated maturity thereof and paid, or to be paid, from Revenues) of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof, (y) the principal amount of Option Bonds tendered for payment before the stated maturity thereof and paid, or to be paid, from Revenues, shall be deemed to accrue on the date required to be paid pursuant to such tender and (z) the principal and interest portions of the Accreted Value of Capital Appreciation Bonds or the Appreciated Value of Deferred Income Bonds shall be included in the calculation of Debt Service at the times and in the manner provided in subsection 1 of Section 208; provided, however, that if the calculation of the Debt Service Reserve Requirement for any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund takes into account Debt Service, then, for purposes of such calculation, Debt Service shall be calculated only with respect to the Bonds of the Series secured thereby. If the City has, in connection with any Series of 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 Bonds, the City is to pay to a Qualified Hedging Contract Provider an amount determined based upon a variable rate of interest and the Qualified Hedging Contract Provider is to pay to the City an amount determined based upon a fixed rate of interest equal to the rate or rates at which such Bonds bear interest, it will be assumed that such Bonds 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 Bonds, Parity Commercial Paper Notes or Parity Medium-Term Notes, entered into a Qualified Hedging Contract which provides that, in respect of a notional amount equal to or less than the Outstanding principal amount of the Variable Rate Bonds, Parity Commercial Paper Notes or Parity Medium-Term Notes, the City is to pay to a Qualified Hedging Contract Provider an amount determined based upon a fixed rate of interest and the Qualified Hedging Contract Provider is to pay to the City an amount determined based upon a variable rate of interest equal or comparable to the rate at which such Variable Rate Bonds, Parity Commercial Paper Notes or Parity Medium-Term Notes bear interest, it will be assumed that such Variable Rate Bonds, Parity Commercial Paper Notes or Parity Medium-Term Notes or portion 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.

**Debt Service Fund** shall mean the Debt Service Fund established in Section 502.

**Debt Service Reserve Requirement** shall mean with respect to each subaccount, if any, in the Debt Service Reserve Account, the amount specified in the Supplemental Resolution pursuant to which such subaccount shall be established; provided, however, that if at any time the City at its option shall have established one or more Reserve Deposits in connection with the issuance of any Additionally Secured Series of Bonds, the Debt Service Reserve Requirement for such Additionally Secured Series of

Bonds as of any date of calculation shall be reduced by an amount equal to the sum of all Reserve Deposits not due and payable in such current or future Fiscal Year to which the calculation relates. For purposes of the foregoing calculation, it shall be assumed that Variable Rate Bonds will bear interest during any period at the greater of (i) the actual rate of interest then borne by such Bonds as determined in accordance with the methodology set forth in the definition of Debt Service or (ii) the Certified Interest Rate applicable thereto, or as otherwise provided for in the Supplemental Resolution applicable to such Variable Rate Bonds. For the avoidance of doubt, Bonds issued hereunder may be issued with a zero Debt Service Reserve Requirement and in that case, such Bonds shall not be entitled to payments from the Debt Service Reserve Account or any subaccount therein.

**Defaulted Interest** shall have the meaning given to such term in Section 308.

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

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

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

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

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

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

(f) upon compliance with the provisions of subsection 6 of Section 1201, such securities (I) as are described in clause (a) of this definition and (II) as are described in clause (d) hereof so long as such securities evidence ownership of the right to payments of principal and/or interest on obligations described in clause (a) hereof, in each case, which are subject to redemption prior to maturity at the option of the issuer thereof on a specified date or dates.

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

**Depository** shall mean any bank or trust company organized under the laws of any state of the United States or any national banking association selected by the City as a depository of moneys and securities held under the provisions of the Resolution, and may include the Trustee or the Co-Trustee.

**Event of Default** shall have the meaning given to such term in Section 801.

**Fiduciary or Fiduciaries** shall mean the Trustee, the Co-Trustee, the Bond Registrar, the Paying Agents, the Depositories, or any or all of them, as may be appropriate.

**Fiscal Year** shall mean the twelve month period established by the City from time to time as its fiscal year.

**Hedge Charges** shall have the meaning given in Section 209 hereof.

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

**Mayor** shall mean the Mayor of the City or the Mayor Pro-Tem or such other member of the Commission delegated to act on behalf of the Mayor by the Commission.

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

**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 (a) Bonds other than Commercial Paper Notes or Medium-Term Notes or (b) Subordinated Bonds, in either such case, that the City intends to pay from Revenues, the principal of such Medium-Term Note shall, for purposes of the Medium-Term Note Payment Plan, be assumed to come due over a period commencing with the due date of the Medium-Term Note and ending not later than the later of (x) the 30th anniversary of the first issuance of Medium-Term Notes of such Series or (y) the 10th anniversary of the due date of the Medium-Term Note to be refunded, in installments such that the principal and interest payable on such Medium-Term Note in each Fiscal Year in such period will be equal to the principal and interest payable on such Medium-Term Note in each other Fiscal Year in such period.

**Net Revenues** for any period shall mean the Revenues during such period plus (x) the amounts, if any, paid from the Rate Stabilization Fund into the Revenue Fund during such period (excluding from (x), for the purpose of avoiding double counting, amounts already included in the Revenues for such period representing interest earnings transferred from the Rate Stabilization Fund to the Revenue Fund pursuant to Section 603) and minus (y) the sum of (a) Operation and Maintenance Expenses during such period and (b) the amounts, if any, paid from the Revenue Fund into the Rate Stabilization Fund during such period.

**Operation and Maintenance Expenses** shall mean all expenses incurred in connection with the operation and maintenance of the System including, without limiting the generality of the foregoing, all operating and maintenance expenses included in the Uniform System of Accounts exclusive of interest, depreciation and amortization charges. Operation and Maintenance Expenses shall include all Credit Obligations except as provided in Section 206 hereof.

**Opinion of Counsel** shall mean an opinion in writing signed by an attorney or firm of attorneys (who may be counsel to the City) selected by the City, and which may include Bond Counsel.

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

**Original Resolution** shall mean the Utilities System Revenue Bond Resolution adopted by the City on June 6, 1983, as amended and supplemented prior to the adoption of this Amended and Restated Utilities System Revenue Bond Resolution.

**Outstanding**, when used with reference to Bonds, shall mean, as of any date of calculation, Bonds theretofore or thereupon being authenticated and delivered under the Resolution except:

- (i) Bonds (or portions of Bonds) cancelled by the Trustee at or prior to such date;

- (ii) Bonds (or portions of 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 under the Resolution and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given as provided in Article IV or in the Supplemental Resolution authorizing the Series of which such Bonds are a part or provision satisfactory to the Trustee shall have been made for the giving of such notice;

- (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Article III or Section 406 or 1106 unless proof satisfactory to the Trustee is presented that any such Bonds are held by a bona fide purchaser in due course; and

- (iv) Bonds (or portions thereof) deemed to have been paid as provided in paragraph 2 of Section 1201 or in the Supplemental Resolution authorizing the Series of which such Bonds are a part.

**Parity Commercial Paper Notes** shall have the meaning given to such term in paragraph 1 of Section 210.

**Parity Hedging Contract Obligation** shall have the meaning given to such term in Section 209, excluding, however, Hedge Charges. For purposes of Section 803 hereof, any Parity Hedging Contract Obligation shall specify, to the extent applicable, the interest and principal components of, or the scheduled payments corresponding to interest under, such Parity Hedging Contract Obligation.

**Parity Medium-Term Notes** shall have the meaning given to such term in paragraph 1 of Section 211.

**Parity Reimbursement Obligation** shall have the meaning given to such term in Section 207.

**Paying Agent** shall mean any bank or trust company organized under the laws of any state of the United States or any national banking association designated as paying agent for the Bonds of any Series, and its successor or successors hereafter appointed in the manner provided in the Resolution.

**Principal Installment** shall mean, as of any date of calculation and with respect to any Series, so long as any Bonds thereof are Outstanding, (i) the principal amount of Bonds (including the principal amount of any Option Bonds tendered for payment prior to the stated maturity thereof) of such Series due (or so tendered for payment) on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance (determined as provided in Section 511) of any Sinking Fund Installments due on a certain future date for 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 Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

**Prudent Utility Practice** shall mean, in respect of any particular utility industry, any of the practices, methods and acts which, in the exercise of reasonable judgment, in the light of the facts, including but not limited to the practices, methods and acts engaged in or approved by a significant portion of such utility industry prior thereto, known at the time the decision was made, would have been expected



to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather is a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition.

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

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

**Rate Stabilization Fund** shall mean the Rate Stabilization Fund established in Section 502.

**Rating Agency** shall mean each nationally recognized securities rating agency then maintaining a rating on the Bonds at the request of the City.

**Rating Category** shall mean one of the generic rating categories of any Rating Agency without regard to any refinement or gradation of such rating by a numerical modifier or otherwise; provided, however, that for purposes hereof any requirement that an obligation be rated in the highest short-term Rating Category shall be deemed to be satisfied if such obligation is rated A-1 or better by Standard & Poor's, VMIG-1 or better by Moody's Investors Service, Inc. or F-1 or better by Fitch Ratings. In the event of the adoption of any new or changed ratings system or a "global" rating scale by any such Rating Agency, the ratings categories shall reflect such new ratings as determined by the City which most closely approximates the ratings currently in effect.

**Redemption Price** shall mean, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bond or the Resolution.

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

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

**Refunding Bonds** shall mean all Bonds, whether issued in one or more Series, authenticated and delivered on original issuance pursuant to Section 204, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to Article III or Section 406 or Section 1106.

**Regular Record Date** shall have the meaning given to such term in Section 308.

**Reimbursement Obligations** shall mean all Bonds issued pursuant to Section 207 and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to Article III or Section 406 or Section 1106 and the Supplemental Resolution authorizing such Reimbursement Obligations.

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

**Resolution** shall mean this Amended and Restated Utilities System Revenue Bond Resolution as from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms hereof.

**Revenue Fund** shall mean the Revenue Fund established in Section 502.

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

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

**Series** shall mean all of the Bonds authenticated and delivered on original issuance and identified pursuant to this Resolution or the Supplemental Resolution authorizing such Bonds as a separate Series of Bonds, or any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to Article III or Section 406 or Section 1106, regardless of variations in maturity, interest rate, Sinking Fund Installments, or other provisions.

**Sinking Fund Installment** shall mean an amount so designated which is established pursuant to the Supplemental Resolution authorizing the Series of Bonds to which such Sinking Fund Installment relates.

**Special Record Date** shall have the meaning given to such term in Section 308.

**Subordinated Commercial Paper Notes** shall have the meaning given to such term in paragraph 1 of Section 210.

**Subordinated Hedging Contract Obligation** shall have the meaning given to such term in Section 209.

**Subordinated Indebtedness** shall mean an evidence of indebtedness referred to in, and complying with the provisions of, Section 512, and shall include, without limitation, Subordinated Commercial Paper Notes, Subordinated Hedging Contract Obligations, Subordinated Medium-Term Notes and Subordinated Reimbursement Obligations.

**Subordinated Indebtedness Fund** shall mean the Subordinated Indebtedness Fund established in Section 502.

**Subordinated Medium-Term Notes** shall have the meaning given to such term in paragraph 1 of Section 211.

**Subordinated Reimbursement Obligation** shall have the meaning given to such term in Section 207.

**Supplemental Resolution** shall mean any resolution supplemental to or amendatory of the Resolution, adopted by the City in accordance with Article X.

**System** shall mean the entire combined and consolidated electric system, water system, wastewater system, natural gas system and telecommunications system of the City, now existing and hereafter acquired by lease, contract, purchase or otherwise or constructed by the City, including any interest or participation of the City in any facilities in connection with said system, together with all additions, betterments, extensions and improvements to said system or any part thereof hereafter constructed or acquired and together with all lands, easements, licenses and rights of way of the City and all other works, property or structures of the City and contract rights and other tangible and intangible assets of the City now or hereafter owned or used in connection with or related to said System; provided, however, that upon compliance with the provisions of Section 717, the term System shall be deemed to include other utility functions added to the System such as the production, distribution and sale of process steam, the providing of cable television services or other utility functions that are, in accordance with Prudent Utility Practice, reasonably related to the services provided by the System. Notwithstanding the foregoing definition of the term System, such term shall not include any properties or interests in properties of the City which the City determines shall not constitute a part of the System for the purpose of the Resolution.

**Trust Estate** shall mean (i) the proceeds of the sale of the Bonds, (ii) the Revenues and (iii) all Funds established by the Resolution (other than the Debt Service Reserve Account in the Debt Service Reserve Fund and any fund which may be established pursuant to paragraph 2 of Section 502 hereof), including the investments and income, if any, thereof.

**Trustee** shall mean the trustee appointed pursuant to Article IX, and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Resolution.

**Uniform System of Accounts** shall mean, as to the electric utility portion of the System, that system of accounting principles at the time prescribed by the Federal Energy Regulatory Commission, or its successor for such purpose, for Class A and B electric utilities; and as to the other utility portions of the System, shall mean those same principles as appropriately modified for such utilities.

**Utilities Plant Improvement Fund** shall mean the Utilities Plant Improvement Fund established in Section 502.

**Variable Rate Bond** shall mean any Bond not bearing interest throughout its term at a specified rate or specified rates determined at the time of issuance of the Series of Bonds of which such Bond is one.

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 Resolution to Articles, Sections, and other subdivisions are to the corresponding Articles, Sections or subdivisions of the Resolution, and the words herein, hereof, hereunder and other words of similar import refer to the Resolution as a whole and not to any particular Article, Section or subdivision of the Resolution. The headings or titles of the several articles and sections of the Resolution, and any Table of Contents appended to copies of the Resolution, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of the Resolution.

**SECTION 102. Authority for this Resolution.** This Amended and Restated Utilities System Revenue Bond Resolution is supplemental to the Original Resolution, and constitutes a "Supplemental Resolution" within the meaning of the Original Resolution.

**SECTION 103. Resolution to Constitute Contract.** In consideration of the purchase and acceptance of any and all of the Bonds authorized to be issued hereunder by those who shall hold the same from time to time, the Resolution shall be deemed to be and shall constitute a contract between the City and the Holders from time to time of the Bonds; and the security interest granted and the pledge and assignment made in the Resolution and the covenants and agreements therein set forth to be performed on behalf of the City shall be for the equal benefit, protection and security of the Holders of any and all of the 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 Bonds over any other thereof except as expressly provided in or permitted by this Resolution.

## ARTICLE II

### AUTHORIZATION AND ISSUANCE OF BONDS

**SECTION 201. Authorization of Bonds.** 1. The Resolution authorizes Bonds of the City to be designated as "Utilities System Revenue Bonds." The aggregate principal amount of the Bonds which may be executed, authenticated and delivered under the Resolution is not limited except as may hereafter be provided in the Resolution or in any Supplemental Resolution or as may be limited by law.

2. The Bonds may, if and when authorized by the City pursuant to one or more Supplemental Resolutions, be issued in one or more Series, and the designation thereof, in addition to the name "Utilities System Revenue Bonds", shall include such further appropriate particular designation added to or incorporated in such title for the Bonds of any particular Series as the City may determine. Each Bond shall bear upon its face the designation so determined for the Series to which it belongs.

3. Nothing in the Resolution shall be deemed to preclude or restrict the consolidation into a single Series for purposes of issuance and sale of Bonds otherwise permitted by the 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 202, Section 203 or Section 204, as the case may be, the Bonds otherwise permitted by the Resolution to be issued as a separate Series shall be considered separately as if such 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 Resolution notwithstanding any other provision of the Resolution.

**SECTION 202. General Provisions for Issuance of Bonds.** 1. Except in the case of Parity Reimbursement Obligations, Parity Commercial Paper Notes and Parity Medium-Term Notes (the issuance of which shall be governed by the provisions of Sections 207, 210 and 211, respectively), all (but not less than all) the Bonds of each Series shall be executed by the City for issuance under the Resolution and delivered to the Trustee and thereupon shall be authenticated by the Trustee and by it delivered to the City or upon its order, but only upon the receipt by the Trustee (with copies of all documents to the Co-Trustee, if any) of:

(1) 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 Resolution creates the valid pledge which it purports to create of, the Trust Estate and, if such Series of Bonds shall be an Additionally Secured Series, the separate subaccount in the Debt Service Reserve Account in the Debt Service Fund established for the benefit of such 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; and (iii) the Bonds of such Series are valid and binding obligations of the City as provided in the Resolution and entitled to the benefits of the Resolution and of the Act as amended to the date of such Opinion, and such Bonds have been duly and validly authorized and issued in accordance with law, including the Act as amended to the date of such Opinion, and in accordance with the Resolution. 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 Resolution over the rights of other persons in the Trust Estate and, if applicable, such separate subaccount in the Debt Service Reserve Account in the Debt Service Fund and such other customarily accepted exceptions and reliance provisions. The opinion may be limited to this Resolution, as amended, and the Supplemental Resolution applicable to the proposed Bonds;

(2) A written order as to the delivery of such Bonds, signed by an Authorized Officer of the City;

(3) A copy of the Supplemental Resolution authorizing such Bonds, certified by an Authorized Officer of the City, which shall specify such terms and conditions relative to the Bonds of such Series, and such other matters relative thereto, as the City may determine;

(4) The amount, if any, required by the Supplemental Resolution to be deposited in the Debt Service Account in the Debt Service Fund for the payment of interest on Bonds and, if such Series shall be an Additionally Secured Series, the amount, if any, necessary for deposit in the separate subaccount in the Debt Service Reserve Account in the Debt Service Fund designated therefor so that the amount on deposit in such subaccount shall equal the Debt Service Reserve Requirement related thereto calculated immediately after the authentication and delivery of such Series of Additional Obligations; provided, however, that a Supplemental Resolution establishing a separate subaccount in the Debt Service Reserve Account in the Debt Service Fund may provide that, in lieu of maintaining all or a portion of the moneys or investments required to be maintained in such separate subaccount in the Debt Service Reserve Account in the Debt Service Fund, there may be credited to said subaccount at any time an irrevocable surety bond, an insurance policy, a letter of credit or any other similar obligation, or any combination thereof, of the type specified therein, or such amount may be deposited thereafter from Revenues or otherwise, in such manner as may be specified therein;

(5) The amount, if any, required by the Supplemental Resolution to be deposited in the Rate Stabilization Fund;

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

(7) All amounts not deposited in other Funds under the Resolution for deposit in the Construction Fund;

(8) Except in the case of any Series of Refunding Bonds, the City shall have filed with the Trustee a certificate of an Authorized Officer stating (i) that the Net Revenues of the System in any twelve consecutive months out of the most recent eighteen months preceding the sale of Bonds, as determined from the financial statements of the System, were not less than one hundred twenty-five percent (125%) of the Aggregate Debt Service over such twelve month period in respect of the then Outstanding Bonds;

(9) Except in the case of any Series of Refunding Bonds, a certificate of an Authorized Officer of the City stating that the Net Revenues for each of the full Fiscal Years in the period specified in the next sentence, as such Net Revenues are estimated by the City in accordance with Section 205 hereof, shall be at least equal to 1.40 times the Adjusted Aggregate Debt Service for each such Fiscal Year, as estimated by the City in accordance with Section 205 hereof. The period to be covered by such certificate shall be the period beginning with the Fiscal Year in which the Series of Bonds is authenticated and delivered and ending with the later of (a) the fifth full Fiscal Year after such date of authentication and delivery 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 deposits made from Bond proceeds in the Debt Service Account in the Debt Service Fund (including amounts, if any, to be transferred thereto from the Construction Fund);

(10) In the case of each Series of Bonds any portion of the proceeds of which is to be deposited in the Debt Service Account in the Debt Service Fund, a certificate of an Authorized Officer of the City setting forth the then estimated application of such proceeds so deposited for the payment of interest on any particular Series of Bonds, whether or not such Series of Bonds is then Outstanding, or then being issued, or to be issued thereafter; and

(11) Such further documents, moneys and securities as are required by the provisions of Section 204 or Article X or any Supplemental Resolution adopted pursuant to Article X.

3. All the Bonds of each Series of like maturity shall be identical in all respects, except as to interest rate, denominations, numbers and letters. After the original issuance of Bonds of any Series other than Parity Reimbursement Obligations, Parity Commercial Paper Notes and Parity Medium-Term Notes, no Bonds of such Series shall be issued except in lieu of or in substitution for other Bonds of such Series pursuant to Article III or Section 406 or Section 1106.

**SECTION 203. Bonds Other than Refunding Bonds, Parity Commercial Paper Notes, Parity Medium-Term Notes and Parity Reimbursement Obligations.** 1. One or more Series of 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. Bonds of each such Series shall be authenticated and delivered by the Trustee only upon compliance with the terms and conditions set forth in Section 202.

2. Proceeds, including accrued interest, of each Series of Bonds authorized under this Section 203 shall be applied simultaneously with the delivery of such Bonds as shall be provided in the Supplemental Resolution authorizing such Series.

**SECTION 204. 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 Section 202, 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 Section 1201 of 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 paragraph 4 of Section 507 and paragraph 5 of Section 508) 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 paragraph 3 of Section 1201, which Defeasance Securities and moneys shall be held in trust and used only as provided in said paragraph 3 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.

3. 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.

**SECTION 205. Estimates by the City.** 1. In estimating Net Revenues for each of the Fiscal Years covered by any certificate required to be delivered by it pursuant to clause (9) of paragraph 1 of Section 202 hereof or Section 206 hereof, the City may base its estimate upon such factors as it shall consider reasonable.

2. In estimating the Adjusted Aggregate Debt Service for each of the Fiscal Years covered by any certificate required to be delivered by it pursuant to clause (9) of paragraph 1 of Section 202 hereof or Section 206 hereof, the City shall include the Adjusted Aggregate Debt Service on all Bonds estimated to be Outstanding during each such Fiscal Year. With respect to (a) any Bonds which are not Outstanding on the date such certificate is delivered but which are projected to be issued during the period covered by such certificate, and (b) any Variable Rate Bonds Outstanding on the date such certificate is delivered, the City shall estimate the Debt Service on such Bonds upon such assumptions as the City shall consider reasonable and set forth in such certificate, including assumptions with respect to the interest rate or rates to be borne by such Bonds and the amounts and due dates of the Principal Installments for such Bonds; provided, however, that the interest rate or rates assumed to be borne by any Variable Rate Bonds shall not be less than the interest rate borne by such Variable Rate Bonds at the time that the Authorized Officer of the City delivers such certificate.

**SECTION 206. Credit Obligations.** Payments owed by the City with respect to any Credit Obligation shall constitute Operation and Maintenance Expenses only if at the time the City enters into the contract relating to such Credit Obligation the City shall file with the Trustee a certificate of an Authorized Officer of the City stating that, assuming such payments are made as Operation and Maintenance Expenses from the Revenue Fund, the Net Revenues for each of the full Fiscal Years in the period specified in the next sentence, as such Net Revenues are estimated by the City in accordance with Section 205 hereof, shall be at least equal to 1.25 times the Aggregate Debt Service for each such Fiscal Year, as estimated by the City in accordance with Section 205 hereof. The period to be covered by such

certificate shall be the period beginning with the Fiscal year in which the contract relating to the Credit Obligation becomes effective and ending with the later of (a) the fifth full Fiscal Year after such effective date 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 deposits made from Bond proceeds in the Debt Service Account in the Debt Service Fund (including amounts, if any, to be transferred thereto from the Construction Fund).

**SECTION 207. Reimbursement Obligations.** One or more Series of Reimbursement Obligations may be issued concurrently with the issuance of the Bonds of a Series authorized pursuant to the provisions of Section 203 or 204 hereof for which Credit Enhancement or liquidity support is being provided with respect to such Bonds (or a maturity or maturities or interest rate within a maturity thereof) by a third-party. Such Reimbursement Obligations shall be issued for the purpose of evidencing the City's obligation to repay any advances or loans made to, or on behalf of, the City in connection with such Credit Enhancement or liquidity support; provided, however, that the stated maximum principal amount of any such Series of Reimbursement Obligations shall not exceed the aggregate principal amount of the Bonds with respect to which such Credit Enhancement or liquidity support is being provided, and such number of days' interest thereon as the City shall determine prior to the issuance thereof, but not in excess of 366 days' interest thereon, computed at the maximum interest rate applicable thereto; and provided, further, that principal amortization requirements shall be equal to the amortization requirements of the related Bonds, without acceleration. Any Reimbursement Obligation, which may include interest calculated at a rate higher than the interest rate on the related Bonds, may be secured by a pledge and assignment of the Trust Estate on a parity with the pledge and assignment created by paragraph 1 of Section 501 to secure the Bonds (a "Parity Reimbursement Obligation"), but only to the extent principal amortization requirements with respect to such reimbursement are equal to the amortization requirements for such related Bonds, without acceleration, or may be secured by a pledge and assignment of the Subordinated Indebtedness Fund which pledge and assignment shall be subordinate in all respects to the pledge of the Trust Estate created by the Resolution in favor of the Bonds and Parity Hedging Contract Obligations but on a parity with the pledge and lien securing Subordinated Indebtedness (a "Subordinated Reimbursement Obligation"), as determined by the City. Parity Reimbursement Obligations shall not include any payments of any fees, expenses, indemnification or other obligations to any provider of Credit Enhancement, or any payments pursuant to term-loan or other principal amortization requirements in reimbursement of any such advance that are more accelerated than the amortization requirements on such related Bonds, which payments shall be Subordinated Reimbursement Obligations.

**SECTION 208. Special Provisions Relating to Capital Appreciation Bonds, Deferred Income Bonds and Parity Reimbursement Obligations.** 1. The principal and interest portions of the Accreted Value of Capital Appreciation Bonds or the Appreciated Value of Deferred Income 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 Principal Installments made under the definitions of Debt Service, Accrued Aggregate Debt Service, Adjusted Aggregate Debt Service and Aggregate 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 Bond is redeemed prior to maturity, or (ii) receiving payment of a Capital Appreciation Bond if the principal of all Bonds is declared immediately due and payable following an Event of Default, as provided in Section 801 of the Resolution or (iii) computing the principal amount of Bonds held by the Holder of a Capital Appreciation Bond in giving to the City or the Trustee any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, the principal amount of a Capital Appreciation Bond shall be deemed to be its then current Accreted Value.

3. For the purposes of (i) receiving payment of the Redemption Price if a Deferred Income Bond is redeemed prior to maturity, or (ii) receiving payment of a Deferred Income Bond if the principal of all Bonds is declared immediately due and payable following an Event of Default, as provided in Section 801 of the Resolution or (iii) computing the principal amount of Bonds held by the Holder of a Deferred Income Bond in giving to the City or the Trustee any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, the principal amount of a Deferred Income Bond shall be deemed to be its then current Appreciated Value.

4. Except as otherwise provided in a Supplemental Resolution authorizing a Series of Parity Reimbursement Obligations, for the purposes of (i) receiving payment of a Parity Reimbursement Obligation, whether at maturity, upon redemption or if the principal of all Bonds is declared immediately due and payable following an Event of Default, as provided in Section 801 of the Resolution or (ii) computing the principal amount of Bonds held by the Holder of a Parity Reimbursement Obligation in giving to the City or the Trustee any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, the principal amount of a Parity Reimbursement Obligation shall be deemed to be the actual principal amount that the City shall owe thereon, which shall equal the aggregate of the amounts advanced to, or on behalf of, the City in connection with the Bonds of the Series or maturity or interest rate within a maturity for which such Parity Reimbursement Obligation has been issued to evidence the City's obligation to repay any advances or loans made in respect of the Credit Enhancement or liquidity support provided for such Bonds, less any prior repayments thereof.

**SECTION 209. Provisions Concerning Qualified Hedging Contracts.** The City may, to the extent from time to time permitted pursuant to law, enter into Qualified Hedging Contracts. The City's obligation to pay any amount under any Qualified Hedging Contract (excluding Hedge Charges) may be secured by a pledge and assignment of the Trust Estate on a parity with the pledge and assignment created by paragraph 1 of Section 501 to secure the Bonds (a "Parity Hedging Contract Obligation"), or may be secured by a pledge and assignment of the Subordinated Indebtedness Fund which pledge and assignment shall be subordinate in all respects to the pledge of the Trust Estate created by the Resolution in favor of the Bonds but on a parity with the pledge and assignment securing Subordinated Indebtedness (a "Subordinated Hedging Contract Obligation"), as determined by the City. Notwithstanding the foregoing, Parity Hedging Contract Obligations shall not include payments of any termination payments owed to a counterparty to a Qualified Hedging Contract ("Hedge Charges"), which payments shall be Subordinated Hedging Contract Obligations. To the extent not otherwise determined in the calculation of Debt Service, in determining the payments required to be made by or to be received by the City on the variable rate component of a Variable Rate Hedging Obligation, to the extent applicable, the City may apply the methodology used in connection with the Certified Interest Rate to determine amounts payable by or to the City under a Qualified Hedging Contract or may use such other reasonable assumptions as by the City, upon advice of its Independent Consultants, may deem appropriate.

**SECTION 210. Commercial Paper Notes.** 1. Commercial Paper Notes may be issued from time to time in Series secured by a pledge and assignment of the Trust Estate on a parity with the pledge and assignment created by paragraph 1 of Section 501 to secure the Bonds ("Parity Commercial Paper Notes"). Commercial Paper Notes may also be issued from time to time in series secured by a pledge and assignment of the Subordinated Indebtedness Fund which pledge shall be subordinate in all respects to the pledge of the Trust Estate created by the Resolution in favor of the Bonds but on a parity with the pledge and lien securing Subordinated Indebtedness ("Subordinated Commercial Paper Notes"). The Trustee shall authenticate and deliver Commercial Paper Notes to the City or upon its order, but only upon satisfaction of the following conditions:

(a) If so required by the Supplemental Resolution, the Trustee shall have received a credit facility or a liquidity facility with respect to such Commercial Paper Notes containing such

terms and conditions, including with respect to reimbursement, as shall be approved by the Commission;

(b) The Trustee shall have received a certificate of an Authorized Officer of the City 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; and

(c) If such Commercial Paper Notes shall be Parity Commercial Paper Notes, the Trustee shall have received, prior to the initial issuance of Commercial Paper Notes of a Series, the items referred to in paragraph 1 of Section 202, modified to refer to the Commercial Paper Notes rather than Bonds, and, if applicable, Section 204.

2. The City may appoint a fiscal agent to perform such duties of the Trustee hereunder as the City shall specify in the Supplemental Resolution authorizing such Commercial Paper Notes. Any such fiscal agent shall meet the minimum qualifications applicable to a successor Trustee set forth in Section 909.

3. The proceeds, including accrued interest, if any, of Commercial Paper Notes shall be applied simultaneously with the delivery of such Commercial Paper Notes as provided in the Supplemental Resolution authorizing such Commercial Paper Notes.

**SECTION 211. Medium-Term Notes.** 1. Medium-Term Notes may be issued from time to time in Series secured by a pledge and assignment of the Trust Estate on a parity with the pledge and lien created by paragraph 1 of Section 501 to secure the Bonds ("Parity Medium-Term Notes"). Medium-Term Notes may also be issued from time to time in series secured by a pledge and assignment of the Subordinated Indebtedness Fund which pledge shall be subordinate in all respects to the pledge of the Trust Estate created by the Resolution in favor of the Bonds but on a parity with the pledge and lien securing Subordinated Indebtedness ("Subordinated Medium-Term Notes"). The Trustee shall authenticate and deliver Medium-Term Notes to the City or upon its order, but only upon satisfaction of the following conditions:

(a) If so required by the Supplemental Resolution, the Trustee shall have received a credit facility or a liquidity facility with respect to such Medium-Term Notes containing such terms and conditions, including with respect to reimbursement, as shall be approved by the Commission;

(b) The Trustee shall have received a certificate of an Authorized Officer of the City 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

(c) If such Medium-Term Notes shall be Parity Medium-Term Notes, the Trustee shall have received, prior to the initial issuance of Medium-Term Notes of a Series, the items referred to in paragraph 1 of Section 202, modified to refer to the Medium-Term Notes rather than Bonds, and, if applicable, Section 204.

2. The City may appoint a fiscal agent to perform such duties of the Trustee hereunder as the City shall specify in the Supplemental Resolution authorizing such Medium-Term Notes. Any such fiscal agent shall meet the minimum qualifications applicable to a successor Trustee set forth in Section 909.

3. The proceeds, including accrued interest, if any, of Medium-Term Notes shall be applied simultaneously with the delivery of such Medium-Term Notes as provided in the Supplemental Resolution authorizing such Medium-Term Notes.

## ARTICLE III

### GENERAL TERMS AND PROVISIONS OF BONDS

#### SECTION 301. Medium of Payment; Form and Date; Letters and Numbers.

1. The Bonds of each Series 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.

2. Unless otherwise provided in a Supplemental Resolution, the Bonds of each Series shall be issued in the form of fully registered Bonds without coupons. The Bonds shall be in substantially the form set forth in the Supplemental Resolution authorizing the Series of which such Bonds are a part.

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

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

#### SECTION 302. Legends.

The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of the 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 303. Execution and Authentication.

1. The 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; provided however, that the signature of either the Mayor or the Clerk of the Commission shall be manual signatures, or in such other manner as may be required or permitted by law. The 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 Bonds shall cease to be such officer before the Bonds so signed and sealed shall have been authenticated and delivered by the Trustee, such Bonds may, nevertheless, be authenticated and delivered as herein provided, and may be issued as if the persons who signed or sealed such Bonds had not ceased to hold such offices. Any 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 Bonds shall be duly authorized or hold the proper office in the City, although at the date borne by the Bonds of such Series such persons may not have been so authorized or have held such office.

2. The validation certificate appearing on the Bonds, if any, shall be signed by the facsimile signature of the Mayor and attested with the facsimile signature of the Clerk of the Commission of the City, or in such other manner as may be required or permitted by law, and the City may adopt and use for that purpose the facsimile signature of any person or persons who shall have been Mayor or Clerk of the Commission of the City at any time on or after the date borne by the Bonds of such Series, notwithstanding that such person may not have been such Mayor or Clerk of the Commission of the City

at the date of any such Bond or may have ceased to be such Mayor or Clerk of the Commission of the City at the time when any such Bond shall be authenticated and delivered.

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

**SECTION 304. Interchangeability of Bonds.** Bonds, upon surrender thereof at the office of the Bond Registrar with a written instrument of transfer satisfactory to the Bond Registrar, duly executed by the registered owner or such owner's duly authorized attorney, may, at the option of the registered owner thereof, and upon payment by such registered owner of any charges which the Bond Registrar may make as provided in Section 306, be exchanged for an equal aggregate principal amount of fully registered Bonds of the same Series, maturity and interest rate of any other authorized denominations.

**SECTION 305. Negotiability, Transfer and Registry.** 1. Bonds shall be transferable only upon the books of the City, which shall be kept for such purposes at the office of the Bond Registrar, by the registered owner thereof in person or by such owner's attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Bond Registrar duly executed by the registered owner or such owner's duly authorized attorney. Upon the transfer of any such Bond the City shall issue in the name of the transferee a new Bond or Bonds of the same aggregate principal amount and Series, maturity and interest rate as the surrendered Bond.

2. The City and each Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the books of the City as the absolute owner of such Bond, whether such 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 Bond and for all other purposes, and all such payments so made to any such registered owner or upon such owner's order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the City nor any 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 Resolution, in so treating such registered owner.

**SECTION 306. Regulations With Respect to Exchanges and Transfers.** In all cases in which the privilege of exchanging Bonds or transferring Bonds is exercised, the City shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of the Resolution. All Bonds surrendered in any such exchanges or transfers shall forthwith be delivered to the Trustee and cancelled or retained by the Trustee. For every such exchange or transfer of Bonds, the City or the Bond Registrar may make a charge sufficient to reimburse it for any tax, fee or other governmental charge imposed in connection with said exchange, transfer or registration by a governmental unit other than the City. Unless otherwise provided in a Supplemental Resolution, neither the City nor the Bond Registrar shall be required (a) to transfer or exchange any Bond of any Series for the period next preceding any interest payment date for the Bonds of such Series 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 Interest with respect to such 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 Bonds of any Series for a period beginning 15 days before the first mailing of any notice of

redemption and ending on the day of such mailing, or (c) to transfer, exchange or register any Bonds called for redemption.

**SECTION 307. Bonds Mutilated, Destroyed, Stolen or Lost.** If any Bond becomes mutilated or is lost, stolen or destroyed, the City shall execute and the Trustee shall authenticate and deliver a new Bond of like Series, date of issue, maturity date, principal amount, interest rate per annum and redemption provisions as the Bond so mutilated, lost, stolen or destroyed, provided that (i) in the case of such mutilated Bond, such Bond is first surrendered to the City, (ii) in the case of any such lost, stolen or destroyed 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 Bond surrendered for exchange shall be cancelled. Any such new Bonds issued pursuant to this Section in substitution for Bonds alleged to be destroyed, stolen or lost shall constitute original additional contractual obligations on the part of the City, whether or not the 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 Bonds issued under the Resolution in the Trust Estate.

**SECTION 308. Payment of Interest on Bonds; Interest Rights Reserved.** Interest on any 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 Bond is registered at the close of business on the date (hereinafter the "Regular Record Date") which, unless otherwise provided in the Supplemental Resolution authorizing such Bond, is the 15th day of the calendar month next preceding such interest payment date.

Any interest on any Bond which is payable, but is not punctually paid or duly provided for, on any interest payment date (hereinafter "Defaulted 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 Interest shall be paid by the City to the persons in whose names the Bonds are registered at the close of business on a date (hereinafter the "Special Record Date") for the payment of such Defaulted Interest, which shall be fixed in the following manner. The City shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Bond and the date of the proposed payment, and at the same time the City shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee 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 Interest as in this Section provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted 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 Trustee of the notice of the proposed payment. The Trustee 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 Interest and the Special Record Date therefor to be mailed, first class postage prepaid, to each Bondholder at such Bondholder's address as it appears in the books of the City kept at the office of the Bond Registrar, not less than 10 days prior to such Special Record Date.

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

**SECTION 309. Book Entry Bonds.** 1. Anything in the Resolution to the contrary notwithstanding, if and to the extent provided in the Supplemental Resolution authorizing the Bonds of the Series of which such Bond is a part, any Bond may be authorized and issued as a Book Entry Bond.

2. For all purposes of the Resolution, the Holder of a Book Entry Bond shall be the Securities Depository therefor and neither the City nor any Fiduciary shall have any responsibility or obligation to the beneficial owner of such Bond or to any direct or indirect participant in such Securities Depository. Without limiting the generality of the foregoing, neither the City nor any Fiduciary shall have any responsibility or obligation to any such participant or to the beneficial owner of a Book Entry 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 Bond, (ii) the delivery to any participant of the Securities Depository, the beneficial owner of such Bond or any other person, other than the Securities Depository, of any notice with respect to such Bond, including any notice of the redemption thereof, or (iii) the payment to any participant of the Securities Depository, the beneficial owner of such 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 Bond. The City and the Fiduciaries may treat the Securities Depository therefor as, and deem such Securities Depository to be, the absolute owner of a Book Entry Bond for all purposes whatsoever, including, but not limited to, (w) payment of the principal or Redemption Price of, and interest on, such Bond, (x) giving notices of redemption and of other matters with respect to such Bond, (y) registering transfers with respect to such Bond and (z) giving to the City or the Trustee any notice, consent, request or demand pursuant to the Resolution for any purpose whatsoever. The Paying Agents shall pay the principal or Redemption Price of, and interest on, a Book Entry 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 309 or in any Supplemental Resolution authorizing a Book Entry Bond, no person other than the Securities Depository shall receive a 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 Trustee and a Securities Depository, terminate the services of such Securities Depository with respect to the Book Entry 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 Bond or (ii) a continuation of the requirement that all of the Bonds issued as Book Entry 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 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 Resolution authorizing a Book Entry Bond.

4. Upon the termination of the services of a Securities Depository with respect to a Book Entry Bond pursuant to clause (ii) of the first sentence of subsection 3 of this Section 309, such Bond no longer shall be restricted to being registered in the registration books kept by the 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 Bond pursuant to clause (i) of the first sentence of subsection 3 of this Section 309, 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 Resolution upon reasonable and customary terms. If no such successor can be found within such period, such Book Entry Bond shall no longer be restricted to being registered in the registration books kept by the Bond Registrar in the name of a Securities Depository. In the event that a Book Entry Bond shall no longer be restricted to being registered in the registration books kept by the Bond Registrar in the name of a Securities Depository, (a) the City shall execute and the Trustee shall authenticate and deliver, upon presentation and surrender of the Book Entry Bond, 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 Bond and (b) the Trustee shall notify the Bond Registrar and the Paying Agents that such Bond is no

longer restricted to being registered in the registration books kept by the Bond Registrar in the name of a Securities Depository.

5. Anything in the Resolution to the contrary notwithstanding, payment of the Redemption Price of a Book Entry 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 Resolution to the contrary notwithstanding, such Redemption Price may be paid without presentation and surrender to the Paying Agent of the Book Entry Bond, or portion thereof, called for redemption; provided, however, that payment of (a) the principal payable at maturity of a Book Entry Bond and (b) the Redemption Price of a Book Entry 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 Bond to the Paying Agent; and provided, further, that no such Redemption Price shall be so payable without presentation and surrender unless such Book Entry Bond shall contain or have endorsed thereon a legend substantially to the following effect (or such other legend(s) of similar content as may be specified in the Supplemental Resolution authorizing the Series of Bonds of which such Book Entry Bond is a part as may be determined to be necessary or desirable by the City or such Securities Depository):

“AS PROVIDED IN THE RESOLUTION REFERRED TO HEREIN, UNTIL THE TERMINATION OF THE CITY OF BOOK-ENTRY-ONLY TRANSFERS THROUGH [NAME OF SECURITIES DEPOSITORY] (TOGETHER WITH ANY SUCCESSOR SECURITIES DEPOSITORY APPOINTED PURSUANT TO THE RESOLUTION, “[NAME OF SECURITIES DEPOSITORY]”), AND NOTWITHSTANDING ANY OTHER PROVISION OF THE RESOLUTION TO THE CONTRARY, (A) THIS BOND MAY BE TRANSFERRED, IN WHOLE BUT NOT IN PART, ONLY TO A NOMINEE OF [NAME OF SECURITIES DEPOSITORY], OR BY A NOMINEE OF [NAME OF SECURITIES DEPOSITORY] TO [NAME OF SECURITIES DEPOSITORY] OR A NOMINEE OF [NAME OF SECURITIES DEPOSITORY], OR BY [NAME OF SECURITIES DEPOSITORY] OR A NOMINEE OF [NAME OF SECURITIES DEPOSITORY] TO ANY SUCCESSOR SECURITIES DEPOSITORY OR ANY NOMINEE THEREOF AND (B) A PORTION OF THE PRINCIPAL AMOUNT OF THIS BOND MAY BE PAID OR REDEEMED WITHOUT SURRENDER HEREOF TO THE PAYING AGENT. [NAME OF SECURITIES DEPOSITORY] OR A NOMINEE, TRANSFEREE OR ASSIGNEE OF [NAME OF SECURITIES DEPOSITORY] OF THIS BOND MAY NOT RELY UPON THE PRINCIPAL AMOUNT INDICATED HEREON AS THE PRINCIPAL AMOUNT HEREOF OUTSTANDING AND UNPAID. THE PRINCIPAL AMOUNT HEREOF OUTSTANDING AND UNPAID SHALL FOR ALL PURPOSES BE THE AMOUNT DETERMINED IN THE MANNER PROVIDED IN THE RESOLUTION.”

Anything in the 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 Bond as to which such payment has been made and (ii) the Resolution, the unpaid principal amount of such Book Entry Bond Outstanding shall be reduced automatically by the principal amount so paid. In such event, the Paying Agent shall notify forthwith the Trustee and the Bond Registrar as to the particular Book Entry Bond as to which such payment has been made, and the principal amount of such Bond so paid, and the 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 Bond Outstanding as provided in this subsection.



6. For all purposes of the Resolution authorizing or permitting the purchase of Bonds, or portions thereof, by, or for the account of, the City for cancellation, and anything in the Resolution to the contrary notwithstanding, a portion of a Book Entry Bond may be deemed to have been purchased and cancelled without surrender thereof upon delivery to the 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 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 Bond shall be effective for purposes of the Resolution only upon surrender of such Book Entry Bond to the Bond Registrar; and provided, further, that no portion of a Book Entry Bond may be deemed to have been so purchased and cancelled without surrender thereof unless such Book Entry Bond shall contain or have endorsed thereon the legend(s) referred to in subsection 5 of this Section 309. Anything in the Resolution to the contrary notwithstanding, upon delivery of any such certificate to the Bond Registrar, for all purposes of (i) the Book Entry Bond to which such certificate relates and (ii) the Resolution, the unpaid principal amount of such Book Entry Bond Outstanding shall be reduced automatically by the principal amount so purchased. In such event, the Bond Registrar shall notify forthwith the Trustee as to the particular Book Entry Bond as to which a beneficial ownership interest therein has been so purchased, and the principal amount of such Bond so purchased, and the Bond Registrar shall note such reduction in principal amount of such Book Entry 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 Bond Outstanding as provided in this subsection.

7. Anything in the Resolution to the contrary notwithstanding, a Securities Depository may make a notation on a Book Entry 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 Bond Outstanding as provided in subsection 5 or 6 of this Section 309, as the case may be.

8. Anything in the Resolution to the contrary notwithstanding, in the case of a Book Entry Bond, the City shall be authorized to redeem or purchase (by or for the account of the City), or issue Refunding Bonds 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 Resolution authorizing such Book Entry Bond), and in the event of such partial defeasance, redemption, purchase or refunding, the provisions of the Resolution relating to the defeasance, redemption, purchase or refunding of a Bond or Bonds shall be deemed to refer to the redemption, purchase or refunding of a portion of a Bond.

#### ARTICLE IV

##### REDEMPTION OF BONDS

**SECTION 401. Privilege of Redemption and Redemption Price.** Bonds subject to redemption prior to maturity pursuant to their terms or to the terms of the Resolution 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 Bonds or in the Supplemental Resolution authorizing the Series of which such Bonds are a part.

**SECTION 402. Redemption at the Election or Direction of the City.** In the case of any redemption of Bonds at the election or direction of the City, the City shall give written notice to the Trustee of its election or direction so to redeem, of the redemption date, of the Series, and of the principal amounts of the Bonds of each maturity of such Series and of the 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 Resolution or any Supplemental Resolution authorizing the Series of which such Bonds are a part). Such notice shall be given at least 40 days prior to the redemption date or such shorter period (a) as shall be specified in the Supplemental Resolution authorizing the Series of Bonds to be redeemed or (b) as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as in Section 405 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 Paying Agents an amount which, in addition to other moneys, if any, available therefor held by such 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 Bonds to be redeemed. The City shall promptly notify the Trustee in writing of all such payments by it to a Paying Agent.

**SECTION 403. Redemption Otherwise Than at City's Election or Direction.** Whenever by the terms of the Resolution the Trustee is required or authorized to redeem Bonds otherwise than at the election or direction of the City, the Trustee shall (i) select the Bonds to be redeemed, (ii) give the notice of redemption and (iii) pay out of moneys available therefor the Redemption Price thereof, plus interest accrued and unpaid to the redemption date, to the appropriate Paying Agents in accordance with the terms of this Article IV and, to the extent applicable, Section 507.

**SECTION 404. Selection of Bonds to be Redeemed.** If fewer than all of the Bonds of like maturity or interest rate within a maturity of any Series shall be called for prior redemption, the particular Bonds or portions of 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 Bonds for redemption, the Trustee shall treat each such Bond as representing that number of 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.

**SECTION 405. Notice of Redemption.** When the Trustee shall receive notice from the City of its election or direction to redeem Bonds pursuant to Section 402, and when redemption of Bonds is authorized or required pursuant to Section 403, the Trustee shall give notice, in the name of the City, of the redemption of such Bonds, which notice shall specify the Series and maturities and interest rates within maturities, if any, of the 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 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 Bonds so to be redeemed, and, in the case of 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 Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of 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, not less than 30 nor more than 60 days before the redemption date, to the registered owners of any Bonds or portions of 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 Bonds. Notwithstanding the foregoing, a Supplemental Resolution authorizing the Bonds of a Series 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 406. Payment of Redeemed Bonds.** Notice having been given in the manner provided in Section 405 or in the Supplemental Resolution authorizing the Bonds of a Series, 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 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 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 Bond, if presentation and surrender thereof are required thereby, the City shall execute and the Trustee shall authenticate and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, Bonds of like Series, maturity, interest rate and redemption provisions in any of the authorized denominations. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any like Series, maturity or interest rate to be redeemed, together with interest to the redemption date, shall be held by the 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 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 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 407. Reserved.**

**SECTION 408. Cancellation and Destruction of Bonds.** Except as may be otherwise provided with respect to Option Bonds in the Supplemental Resolution providing for the issuance thereof, all Bonds paid or redeemed, either at or before maturity, shall be delivered to the Trustee when such payment or redemption is made, and such Bonds, together with all Bonds purchased which have been delivered to the Trustee for application as a credit against Sinking Fund Installments and all Bonds purchased by the Trustee, shall thereupon be promptly cancelled. Bonds so cancelled may at any time be destroyed by the Trustee, who shall execute a certificate of destruction in duplicate by the signature of one of its authorized officers describing the Bonds so destroyed, and one executed certificate shall be filed with the City and the other executed certificate shall be retained by the Trustee.

**ARTICLE V**

**ESTABLISHMENT OF FUNDS AND APPLICATION THEREOF**

**SECTION 501. The Pledge Effected by the Resolution.** 1. The Bonds shall be direct and special obligations of the City payable solely from and secured as to the payment of the principal and Redemption Price thereof, and interest thereon, in accordance with their terms and the provisions of the Resolution solely by the Trust Estate and the Trust Estate hereby 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.

2. The Trust Estate shall immediately be subject to the lien and charge of this Resolution without any physical delivery thereof or further act, and the lien and charge of this 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.

3. Amounts on deposit in any separate subaccount established in the Debt Service Reserve Account in the Debt Service Fund, including the investments, if any, thereof, are hereby pledged

and assigned to the Trustee as additional security for the payment of the principal and Redemption Price thereof, and interest thereon, the Bonds of each Additionally Secured Series secured thereby, 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.

4. The 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 Bondholder shall ever have the right, directly or indirectly, to require or compel the exercise of the ad valorem taxing power of the City for the payment of the principal of or interest on the Bonds or the making of any payments hereunder. The Bonds and the obligations evidenced thereby shall not constitute a lien on any property of or in the City, other than the Trust Estate and, in the case of the Bonds of each Additionally Secured Series, the separate subaccount in the Debt Service Reserve Account in the Debt Service Fund established therefor as herein provided.

5. Nothing contained in the Resolution shall be construed to prevent the City from acquiring, constructing or financing through the issuance of its bonds, notes or other evidences of indebtedness any facilities which do not constitute a part of the System for the purposes of the Resolution or from securing such bonds, notes or other evidences of indebtedness by a mortgage of the facilities so financed or by a pledge of, or other security interest in, the revenues therefrom or any lease or other agreement with respect thereto or any revenues derived from such lease or other agreement; provided that such bonds, notes or other evidences of indebtedness shall not be payable out of or secured by the Trust Estate and neither the cost of such facilities nor any expenditure in connection therewith or with the financing thereof shall be payable from the Trust Estate.

**SECTION 502. Establishment of Funds.** 1. The following Funds and Accounts are hereby established:

- (1) Construction Fund, to be held by the City,
- (2) Revenue Fund, to be held by the City,
- (3) Rate Stabilization Fund, to be held by the City,
- (4) Debt Service Fund, to be held by the Trustee, consisting of a Debt Service Account and a Debt Service Reserve Account,
- (5) Subordinated Indebtedness Fund, to be held by the Trustee, and
- (6) Utilities Plant Improvement Fund, to be held by the City.

2. In the event that the City shall so determine, there may be established by Supplemental Resolution one or more other funds that may be required from time to time by Federal, State or local regulations, by contractual obligations, or in order to operate the System in accordance with Prudent Utility Practice, so as to provide, among other things, for costs of decommissioning, retirement or disposal of facilities, for costs of nuclear waste storage and disposal including the cost of disposal of spent fuel, for maintaining financial responsibility for the closure of hazardous waste storage facilities, or for self insurance. Such funds, if any, shall be held in trust by the City for the sole purpose set forth in the Supplemental Resolution establishing such funds. Deposits into such funds shall be made only after all required deposits have been made into the funds established by paragraph 1 of this Section 502 and shall be made in amounts set forth in the Supplemental Resolution. Deposits into any funds established pursuant to this paragraph shall be made only with amounts defined by the Resolution to be available for use by the City for any lawful purpose and shall neither be governed by the provisions of the Resolution nor considered

to be a part of the Trust Estate. The City may establish separate accounts in the funds and accounts established in paragraph 1 of this Section pursuant to a Supplemental Resolution adopted in connection with the issuance of Bonds.

3. Any Fund or Accounts held by the City pursuant to this Section 502 (other than funds established pursuant to paragraph 2 of this Section) shall be maintained in an account at the Trustee or, at the option of the City, at one or more Depositories in the manner contemplated by Section 601 hereof.

**SECTION 503. Construction Fund.** 1. There shall be paid into the Construction Fund the amounts required to be so paid by the provisions of the Resolution and any Supplemental Resolutions, and there may be paid into the Construction Fund, at the option of the City, any moneys received for or in connection with the System by the City from any other source, unless required to be otherwise applied as provided by the Resolution. Amounts in the Construction Fund shall be applied to the Cost of Acquisition and Construction of the System in the manner provided in this Section, as the same may be modified by Supplemental Resolution pertaining to a Series of Bonds.

2. The City shall withdraw amounts from the Construction Fund for the payment of amounts due and owing on account of the Cost of Acquisition and Construction of the System upon determination of an Authorized Officer of the City (or such officer's designee) that an obligation in the amount to be paid from the Construction Fund has been incurred by the City and that each item thereof is a proper and reasonable charge against the Construction Fund, and that such amount has not been paid theretofore.

3. Notwithstanding any of the other provisions of this Section, to the extent that other moneys are not available therefor, amounts in the Construction Fund shall be applied to the payment of principal of and interest on Bonds from which such moneys were derived.

4. Amounts credited to the Construction Fund which the City at any time determines to be in excess of the amounts required for the purposes thereof shall be transferred to the Debt Service Reserve Account in the Debt Service Fund, if and to the extent necessary to make the amount in any separate subaccount therein equal to the Debt Service Reserve Requirement related thereto (or, if such excess shall be less than the amount necessary to make up deficiencies with respect to all of the separate subaccounts in the Debt Service Reserve Account, then such excess shall be applied ratably, in proportion to the deficiency in each such subaccount), and any balance of such excess shall, at the option of the City, be transferred to the Utilities Plant Improvement Fund for application to any of the purposes thereof; provided, however, such application shall be made only to the extent the uses thereof will not, in the opinion of Bond Counsel, in and of itself, result in interest on any tax-exempt Bonds to be includable in the gross income of the holders thereof for Federal income tax purposes.

5. Nothing in this Section 503 shall be construed to prevent the City from permanently discontinuing the acquisition or construction of any portion of the System the Cost of Acquisition and Construction of which is at the time being paid out of the Construction Fund, if the Commission determines by resolution that such discontinuance is necessary or desirable in the conduct of the business of the City and not disadvantageous to the Holders of the Bonds.

**SECTION 504. Revenues and Revenue Fund.** As soon as practicable after the receipt of any Revenues, and in any event within ten days of such receipt, the City shall deposit such Revenues in the Revenue Fund.

**SECTION 505. Disposition of Revenues.** 1. On or before the last business day of each calendar month, the Revenues actually received by the City and deposited into the Revenue Fund shall be applied, to the extent available, only in the following manner and in the following order of priority

(such application to be made in such a manner so as to assure good funds in such Funds and Accounts on the last business day of such month):

(1) Each month the City shall pay from the Revenue Fund such sums as are necessary to meet Operation and Maintenance Expenses for such month;

(2) The City shall transfer from the Revenue Fund to the Rate Stabilization Fund the amount, if any, budgeted for deposit into such Fund for the then current month as set forth in the current Annual Budget or the amount otherwise determined by the City to be credited to such Fund for the month;

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

(4) The City shall next forward to the Trustee, for deposit from Revenues in the Subordinated Indebtedness Fund, the amount, if any, as shall be required to be deposited therein in the then current month to pay principal or sinking fund installments of and premiums, if any, and interest and other amounts due, on each issue of Subordinated Indebtedness coming due in such month, whether as a result of maturity or prior call for redemption, and to provide reserves therefor, as required by the Supplemental Resolution authorizing such issue of Subordinated Indebtedness; and

(5) The City shall next pay into the Utilities Plant Improvement Fund such amount as it shall deem appropriate provided that for each Fiscal Year deposits into such Fund shall be at least equal to one-half (1/2) of the Net Revenues, during the immediately preceding Fiscal Year, less the sum of (i) Aggregate Debt Service during the immediately preceding Fiscal Year and (ii) interest and principal paid during the immediately preceding Fiscal Year with respect to all Subordinated Indebtedness payable out of Revenues under this Resolution.

2. The balance of any moneys remaining in the Revenue Fund after the above required payments have been made may be used by the City for any lawful purpose; provided, however, that none of the remaining moneys shall be used for any purpose other than those hereinabove specified unless all current payments, including payments to the Utilities Plant Improvement Fund calculated on a

pro rata annual basis, and including all deficiencies in prior payments, if any, have been made in full and unless the City shall have complied fully with all the covenants and provisions of the Resolution; and provided, further, that so long as there shall be held in the Debt Service Fund an amount sufficient to pay in full all Outstanding Bonds and Parity Hedging Contract Obligations in accordance with their terms (including the maximum amount of principal or applicable sinking fund Redemption Price and interest which could become payable thereon), no transfers shall be required to be made to the Debt Service Fund.

**SECTION 506. Rate Stabilization Fund.** 1. Each month the City shall transfer from the Rate Stabilization Fund to the Revenue Fund the amount budgeted for transfer into such Fund for the then current month as set forth in the current Annual Budget or the amount otherwise determined by the City to be deposited into such Fund for the month. The City may also from time to time withdraw amounts currently on deposit in the Rate Stabilization Fund and (i) transfer such amounts to any other Fund or Account established under the Resolution, (ii) use such amounts to purchase or redeem Bonds and/or Subordinated Indebtedness; provided, however, that in the case of the purchase of Bonds and/or Subordinated Indebtedness, the Bonds and/or Subordinated Indebtedness shall be purchased at a price not to exceed the Redemption Price which would be applicable if the Bonds and/or Subordinated Indebtedness were redeemed at the time of the intended purchase or as soon thereafter as such Bonds and/or Subordinated Indebtedness shall be subject to redemption, or (iii) use such amounts to otherwise provide for the payment of Bonds and/or Subordinated Indebtedness.

2. At any time and from time to time the City may transfer for deposit in the Rate Stabilization Fund from any source such amounts as the City deems necessary or desirable; such amounts shall be applied for purposes of the Rate Stabilization Fund in accordance with paragraph 1 of this Section 506.

**SECTION 507. Debt Service Fund – Debt Service Account.** 1. The Trustee shall pay out of the Debt Service Account to the respective Paying Agents (i) on or before each interest payment date for any of the Bonds the amount required for the interest payable on such date; (ii) on or before each Principal Installment due date, the amount required for the Principal Installment payable on such due date; and (iii) on or before any redemption date for the Bonds, the amount required for the payment of interest on the Bonds then to be redeemed. Such amounts shall be applied by the Paying Agents on and after the due dates thereof. The Trustee shall also pay out of the Debt Service Account the accrued interest included in the purchase price of Bonds purchased for retirement and, at the direction of an Authorized Officer of the City, on or before the due date thereof, amounts due in respect of any Parity Hedging Contract Obligation.

2. Amounts accumulated in the Debt Service Account with respect to any Sinking Fund Installment (together with amounts accumulated therein with respect to interest on the Bonds for which such Sinking Fund Installment was established) may and, if so directed by the City, shall be applied by the Trustee, on or prior to the 60th day preceding the due date of such Sinking Fund Installment, to (i) the purchase of 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 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 Debt Service Account (exclusive of amounts, if any, set aside in said Account which were deposited therein from proceeds of Bonds) may, and, if so directed by the City, shall, be applied by the Trustee to the purchase of 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 Bonds pursuant to this paragraph 2 shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Bonds plus accrued interest, and such purchases shall be made by the Trustee as directed by the City. The applicable sinking fund Redemption Price (or principal amount of maturing Bonds) of any Bonds so purchased or redeemed

shall be deemed to constitute part of the Debt Service Account until such Sinking Fund Installment date, for the purpose of calculating the amount of such Account. As soon as practicable after the 40th day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption, by giving notice as provided in Section 405, on such due date Bonds of the Series, maturity and interest rate within each maturity for which such Sinking Fund Installment was established (except in the case of 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 Bonds purchased or redeemed pursuant to Section 510 which the City has directed the Trustee to apply as a credit against such Sinking Fund Installment as provided in Section 511. The Trustee shall pay out of the Debt Service Account to the appropriate Paying Agents, on or before such redemption date (or maturity date), the amount required for the redemption of the Bonds so called for redemption (or for the payment of such Bonds then maturing), and such amount shall be applied by such Paying Agents to such redemption (or payment). All expenses in connection with the purchase or redemption of Bonds shall be paid by the City from the Revenue Fund.

3. The amount, if any, deposited in the Debt Service Account from the proceeds of each Series of Bonds shall be set aside in such Fund and applied to the payment of interest on Bonds in accordance with certificates of the City delivered to the Trustee pursuant to clause (10) of paragraph 1 of Section 202 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 and filed with the Trustee, (with a copy to the Co-Trustee, if any), then in accordance with the most recent such certificates or amended certificates.

4. In the event of the refunding or defeasance of any Bonds, the Trustee shall, if the City so directs, withdraw from the Debt Service Account in the Debt Service Fund all, or any portion of, the amounts accumulated therein and deposit such amounts with itself as Trustee to be held for the payment of the principal or Redemption Price, if applicable, and interest on the Bonds being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter the Bonds being refunded shall be deemed to have been paid pursuant to paragraph 2 of Section 1201, and (b) the amount remaining in the Debt Service Account in the Debt Service Fund, after giving effect to the issuance of the Refunding Bonds and the disposition of the proceeds thereof, shall not be less than the requirement of such Account pursuant to clause (3) of paragraph 1 of Section 505. In the event of such refunding or defeasance, the City may also direct the Trustee to withdraw from the Debt Service Account in the Debt Service Fund all, or any portion of, the amounts accumulated therein and deposit such amounts in any Fund or Account under this Resolution; provided, however, that such withdrawal shall not be made unless items (a) and (b) referred to hereinabove have been satisfied and provided, further, that, at the time of such withdrawal, there shall exist no deficiency in any Fund or Account held under this Resolution.

**SECTION 508. Debt Service Fund – Debt Service Reserve Account.** 1. There shall be established in the Debt Service Reserve Account in the Debt Service Fund one or more separate subaccounts, each of which subaccounts shall be for the benefit and security of one or more Series of Bonds, in the manner and to the extent provided in the Supplemental Resolution establishing each such subaccount. If on the last Business Day of any month the amount in the Debt Service Account shall be less than the amount required to be in such Account pursuant to clause (3) of paragraph 1 of Section 505, the Trustee shall apply amounts from each separate subaccount in the Debt Service Reserve Account to the extent necessary to cure the deficiency.

2. Whenever the moneys on deposit in any subaccount established in the Debt Service Reserve Account shall exceed the Debt Service Reserve Requirement related thereto, after giving effect to any surety bond, insurance policy, letter of credit, or other similar obligation deposited in such Account pursuant to paragraph 4 of this Section 508, such excess shall upon the request of the City, or pursuant to a Supplemental Resolution, be transferred to the City and credited upon the City's receipt thereof to make up

any deficiencies in the Subordinated Indebtedness Fund and the Utilities Plant Improvement Fund, in that order. Any balance of such excess shall be credited to the Revenue Fund.

3. Whenever the amount in any subaccount established in the Debt Service Reserve Account, without giving effect to any surety bond, insurance policy, letter of credit or other similar obligation deposited in such Account pursuant to paragraph 4 of this Section 508, together with the amount in the Debt Service Account, is sufficient to pay in full all Outstanding Bonds and Parity Hedging Contract Obligations in accordance with their terms (including the maximum amount of principal or applicable sinking fund Redemption Price and interest which could become payable thereon), the funds on deposit in the Debt Service Reserve Account shall be transferred to the Debt Service Account. Prior to said transfer, all investments held in the Debt Service Reserve Account shall be liquidated to the extent necessary in order to provide for the timely payment of principal and interest (or Redemption Price) on Bonds. Any provision of the Resolution to the contrary notwithstanding, so long as there shall be held in the Debt Service Fund an amount sufficient to pay in full all Outstanding Bonds in accordance with their terms (including the maximum amount of principal or applicable sinking fund Redemption Price and interest which could become payable thereon), no deposits shall be required to be made into the Debt Service Reserve Account.

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

5. In the event of the refunding or defeasance of any Bonds of an Additionally Secured Series, the Trustee shall, if the City so directs, withdraw from the separate subaccount in the Debt Service Reserve Account in the Debt Service Fund established for the benefit of the Bonds of such Additionally Secured Series all, or any portion of, the amounts accumulated therein and deposit such amounts with itself as Trustee to be held for the payment of the principal or Redemption Price, if applicable, and interest on the Bonds being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter the Bonds being refunded shall be deemed to have been paid pursuant to

paragraph 2 of Section 1201, and (b) the amount remaining in such separate subaccount in the Debt Service Reserve Account in the Debt Service Fund, after giving effect to any surety bond, insurance policy, letter of credit or other similar obligation deposited in such subaccount pursuant to paragraph 4 of this Section 508, after giving effect to the issuance of the Refunding Bonds and the disposition of the proceeds thereof, shall not be less than the Debt Service Reserve Requirement related thereto. In the event of such refunding or defeasance, the City may also direct the Trustee to withdraw from such separate subaccount in the Debt Service Reserve Account all or any portion of the amounts accumulated therein and deposit such amounts in any Fund or Account under the Resolution; provided that such withdrawal shall not be made unless items (a) and (b) referred to hereinabove have been satisfied; and provided further, that, at the time of such withdrawal, there shall exist no deficiency in any Fund or Account held under the Resolution.

6. If on any valuation date the amount on deposit in the Debt Service Reserve Account or any subaccount therein is less than 100% of the Debt Service Reserve Requirement as a result of a decline in the market value of investments in the Debt Service Reserve Account or any subaccount therein, the City shall deposit in the Debt Service Reserve Account or any such subaccount therein the amount necessary to restore the amount on deposit therein to the Debt Service Reserve Requirement (i) within not more than 90 days following the date of such valuation, or (ii) with respect to a subaccount in the Debt Service Reserve Account created by a Supplemental Resolution, as otherwise provided by such Supplemental Resolution.

**SECTION 509. Subordinated Indebtedness Fund.** 1. Subject to paragraph 3 hereof, the Trustee shall apply amounts in the Subordinated Indebtedness Fund to the payment of the principal or sinking fund installments of and interest and premium on each issue of Subordinated Indebtedness and reserves therefor in accordance with the provisions of, and subject to the priorities and limitations and restrictions provided in, the Supplemental Resolution authorizing each issue of Subordinated Indebtedness.

2. At any time and from time to time the City may deposit in the Subordinated Indebtedness Fund for the payment of the principal or sinking fund installments of and interest and premium on each issue of Subordinated Indebtedness amounts received from the proceeds of additional issues of Subordinated Indebtedness or amounts received from any other source.

3. If at any time the amounts in the Debt Service Account or in any separate subaccount in the Debt Service Reserve Account shall be less than the current requirements of such accounts, respectively, pursuant to clause (3) of paragraph 1 of Section 505 and there shall not be on deposit in the Utilities Plant Improvement Fund available moneys sufficient to cure such deficiency, then the Trustee shall withdraw from the Subordinated Indebtedness Fund and deposit in the Debt Service Account or such separate subaccount(s) in the Debt Service Reserve Account, as the case may be, the amount necessary (or all the moneys in said Fund, if less than the amount necessary) to make up such deficiency (or, if the amount in said Fund shall be less than the amount necessary to make up the deficiencies with respect to the Debt Service Account and all of the separate subaccounts in the Debt Service Reserve Account, then the amount in said Fund shall be applied first to make up the deficiency in the Debt Service Account, and any balance remaining shall be applied ratably to make up the deficiencies with respect to the separate subaccounts in the Debt Service Reserve Account, in proportion to the deficiency in each such subaccount).

**SECTION 510. Utilities Plant Improvement Fund.** 1. Amounts deposited in the Utilities Plant Improvement Fund shall be applied to (i) payments into the Debt Service Account or into any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund; (ii) payments for the cost of extensions, enlargements or additions to, or the replacement of capital assets of the System and emergency repairs thereto; (iii) payments into the Subordinated Indebtedness Fund; (iv) purchasing, redeeming or other costs associated with Bonds and/or Subordinated Indebtedness; provided, however, that

in the case of the purchase of Bonds and/or Subordinated Indebtedness, the Bonds and/or Subordinated Indebtedness shall be purchased at a price not to exceed the principal amount and Redemption Price which would be applicable if the Bonds and/or Subordinated Indebtedness were redeemed at the time of the intended purchase or as soon thereafter as such Bonds and/or Subordinated Indebtedness shall be subject to redemption; or (iv) otherwise to provide for the payment of the Bonds and/or Subordinated Indebtedness. If at any time amounts on deposit in the Utilities Plant Improvement Fund are determined by the City to be in excess of the requirements thereof, and other moneys are not available for the payment of Operation and Maintenance Expenses, then such excess may be used for the payment of Operation and Maintenance Expenses.

2. If and to the extent provided in a Supplemental Resolution authorizing Bonds of a Series, amounts from the proceeds of such Bonds may be credited to the Utilities Plant Improvement Fund as specified in the Supplemental Resolution for any purpose of such Fund.

3. No payments shall be made from the Utilities Plant Improvement Fund if and to the extent that the proceeds of insurance or other moneys recoverable as the result of damage, if any, are available and have been received to pay the costs otherwise payable from such Fund.

4. If at any time the amounts in the Debt Service Account or in any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund shall be less than the current requirement of such Accounts, respectively, pursuant to clause (3) of paragraph 1 of Section 505, then the City shall transfer from the credit of the Utilities Plant Improvement Fund to the Trustee for deposit in the Debt Service Account or any separate subaccount in the Debt Service Reserve Account, as the case may be, the amount necessary (or all the moneys in said Fund if less than the amount necessary) to make up any deficiencies in payments to said Accounts required by clause (3) of paragraph 1 of Section 505; provided, however, if the amount in said Fund shall be less than the amount necessary to make up the deficiencies with respect to the Debt Service Account and all of the separate subaccounts in the Debt Service Reserve Account, then the amount in said Fund shall be applied first to make up the deficiency in the Debt Service Account, and any balance remaining shall be applied ratably to make up the deficiencies with respect to the separate subaccounts in the Debt Service Reserve Account, in proportion to the deficiency in each such subaccount.

5. If at any time the amounts in the Subordinated Indebtedness Fund shall be less than the current requirement of such Fund and the amounts on deposit in the Debt Service Account and in each separate subaccount in the Debt Service Reserve Account in the Debt Service Fund shall equal the current requirement of such Accounts, respectively, pursuant to clause (3) of paragraph 1 of Section 505 and such amounts are not required for payment of Operation and Maintenance Expenses, then the City shall transfer from the credit of the Utilities Plant Improvement Fund to the Trustee for deposit in the Subordinated Indebtedness Fund the amount necessary (or all the moneys in said Fund if less than the amount necessary) to make up such deficiency.

**SECTION 511. Credits Against Sinking Fund Installments.** If at any time Bonds of any Series or maturity for which Sinking Fund Installments shall have been established are purchased or redeemed other than pursuant to paragraph 2 of Section 507 or deemed to have been paid pursuant to paragraph 2 of Section 1201 and, with respect to such Bonds which have been deemed paid, irrevocable instructions have been given to the Trustee to redeem or purchase the same on or prior to the due date of the Sinking Fund Installment to be credited under this Section 511, the City may from time to time and at any time by written notice to the Trustee specify the portion, if any, of such 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 notice shall specify the amounts of such 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 Bonds are to be applied as

a credit; provided, however, that none of such Bonds may be applied as a credit against a Sinking Fund Installment to become due less than 45 days after such notice is delivered to the Trustee. All such Bonds to be applied as a credit shall be surrendered to the Trustee 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.

**SECTION 512. Subordinated Indebtedness.** The City may, at any time, or from time to time, issue Subordinated Indebtedness for any lawful purpose payable out of, and which may be secured by a security interest in and pledge and assignment of such amounts in the Subordinated Indebtedness Fund as may from time to time be available for the purpose of payment thereof as provided in Section 509; provided, however, that any security interest and pledge and assignment shall be, and shall be expressed to be, subordinate in all respects to the security interest in and pledge and assignment of the Trust Estate created by the Resolution as security for the Bonds.

## ARTICLE VI

### DEPOSITARIES OF MONEYS, SECURITY FOR

#### DEPOSITS AND INVESTMENT OF FUNDS

**SECTION 601. Depositories.** 1. All moneys held by the Trustee and the Co-Trustee under the provisions of the Resolution shall constitute trust funds and the Trustee and Co-Trustee may deposit such moneys with one or more Depositories in trust for said parties. All moneys held by the City under the Resolution shall constitute trust funds and the City shall deposit such moneys with one or more Depositories in trust for the Trustee and the Co-Trustee, if any. All moneys deposited under the provisions of the Resolution with the Trustee, the Co-Trustee or any Depository shall be held in trust and applied only in accordance with the provisions of the Resolution, and each of the Funds and Accounts established by the Resolution shall be a trust fund for the purposes thereof.

2. Each Depository shall be a bank, savings and loan association or trust company organized under the laws of any state of the United States or a national banking association having capital stock, surplus and undivided earnings aggregating at least \$10,000,000 and willing and able to accept the office on reasonable and customary terms and authorized by law to act in accordance with the provisions of the Resolution.

3. Moneys and securities credited to any Fund or Account under the Resolution held by the City may be commingled with moneys and securities credited to other Funds or Accounts under the Resolution held by the City for purposes of establishing checking or other bank accounts, for purposes of investing funds or otherwise; provided, however, the City shall at all times maintain or cause to be maintained accurate books and records reflecting the amounts credited to each Fund and Account under the Resolution held by the City. All withdrawals from any commingled moneys shall be charged against the proper Fund or Account under the Resolution and no moneys shall be withdrawn from commingled moneys if there is not on credit to the Fund or Account under the Resolution to be charged sufficient funds to cover such withdrawal.

**SECTION 602. Deposits.** 1. All Revenues and other moneys held by any Depository under the Resolution may be placed on demand or time deposit, if and as directed by the City,

provided that such deposits shall permit the moneys so held to be available for use at the time when needed. All such moneys deposited with a Fiduciary, acting as a Depository, may be made in the commercial banking department of any Fiduciary which may honor checks and drafts on such deposit with the same force and effect as if it were not such Fiduciary. All moneys held by any Fiduciary, as such, may be deposited by such Fiduciary in its banking department on demand or, if and to the extent directed by the City and acceptable to such Fiduciary, on time deposit, provided that such moneys on deposit be available for use at the time when needed. Such Fiduciary shall allow and credit on such moneys such interest, if any, as it customarily allows upon similar funds of similar size and under similar condition or as required by law.

2. All moneys held under the Resolution by the Trustee, Co-Trustee or any Depository shall not at any time exceed 10% of the combined capital, surplus and undivided earnings of the Trustee, Co-Trustee or such Depository, as the case may be, unless such moneys are either (1) fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, or (2) secured, to the extent not insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, by lodging with the Trustee, or Co-Trustee, as custodian, as collateral security, Investment Securities having a market value (exclusive of accrued interest) not less than the amount of such moneys (or portion thereof not insured by the Federal Deposit Insurance Corporation), and held in such other manner as may then be required by applicable Federal or State of Florida laws and regulations and applicable state laws and regulations of the state in which the Trustee, Co-Trustee or such Depository (as the case may be) is located, regarding security for, or granting a preference in the case of, the deposit of trust funds; provided, however, that, to the extent permitted by law, it shall not be necessary for the Fiduciaries to give security under this paragraph 2 for the deposit of any moneys with them held in trust and set aside by them for the payment of the principal or Redemption Price of or interest on any Bonds, or for the Trustee, Co-Trustee or any Depository to give security for any moneys which shall be represented by obligations or certificates of deposit purchased as an investment of such moneys.

3. All moneys deposited with the Trustee, Co-Trustee and each Depository shall be credited to the particular Fund or Account to which such moneys belong.

4. Whenever moneys are required to be transferred from one Fund or Account created under the Resolution to another Fund or Account, such transfer may be made by the transfer of cash or the transfer of Investment Securities in an amount sufficient to satisfy the purpose for which such transfer is required.

**SECTION 603. Investment of Certain Funds.** Moneys held in the Debt Service Account in the Debt Service Fund and in the Debt Service Reserve Account in the Debt Service Fund shall be invested and reinvested to the fullest extent practicable in Investment Securities as shall be directed by the City which mature not later than at such times as shall be necessary to provide moneys when needed for payments to be made from such Accounts. Subject to the terms of any resolutions, indentures, or other instruments securing any issue of Subordinated Indebtedness, moneys in the Subordinated Indebtedness Fund shall be invested and reinvested to the fullest extent practicable in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from said Fund. Moneys held in the Revenue Fund and the Construction Fund may be invested and reinvested in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such Funds. Moneys in the Rate Stabilization Fund and the Utilities Plant Improvement Fund may be invested in Investment Securities which mature within five years from the date of such investment, and in any case the Investment Securities in such Funds or in the Accounts therein shall mature not later than such times as shall be necessary to provide moneys when needed to provide payments from such Funds or Accounts. The Trustee or the Co-Trustee, as the case may be, shall make all such investments of moneys held by it in accordance with written instructions received from any Authorized Officer of the City. In making any investment in any Investment Securities with

moneys in any Fund or Account established under the Resolution, the City may, and may instruct the Trustee and the Co-Trustee to, combine such moneys with moneys in any other Fund or Account, but solely for purposes of making such investment in such Investment Securities.

Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) earned on any moneys or investments in such Funds and Accounts, other than the Construction Fund, to the extent the balance in such fund or account exceeds the minimum amount required to be on deposit therein, shall be paid into the Revenue Fund; provided, however, that if the City so directs, such income earned on moneys or investments in any Fund or Account, or any portion thereof, shall be paid into the Construction Fund. Interest earned on any moneys or investments in the Construction Fund shall be held in such Fund for application as provided in Section 503 or, if so directed by the City, paid into the Revenue Fund and applied for such purpose that in the opinion of Bond Counsel will not, in and of itself, result in interest on any tax-exempt Bonds to be includable in the gross income of the holders thereof for Federal income tax purposes.

Nothing in the Resolution shall prevent any Investment Securities acquired as investments of funds held under the Resolution from being issued or held in book-entry form on the books of the Department of the Treasury of the United States.

**SECTION 604. Valuation and Sale of Investments.** Obligations purchased as an investment of moneys in any Fund created under the provisions of the Resolution shall be deemed at all times to be a part of such Fund and any profit realized from the liquidation of such investment shall be credited to such Fund and any loss resulting from the liquidation of such investment shall be charged to such Fund.

In computing the amount in any Fund created under the provisions of the Resolution for any purpose provided in the Resolution, obligations purchased as an investment of moneys therein shall be valued at the amortized cost thereof. The accrued interest paid in connection with the purchase of any obligation shall be included in the value thereof until interest on such obligation is paid. Such computation shall be made as of September 30 in each year and at such other times as the City shall determine. In the event that the City causes to be deposited in any separate subaccount in the Debt Service Reserve Account for the benefit of the holders of Bonds of any Additionally Secured Series, pursuant to the provisions of paragraph 4 of Section 508, an irrevocable surety bond, an insurance policy, a letter of credit or any other similar obligation, such surety bond, insurance policy, letter of credit or other obligation shall be valued at the lesser of the face amount thereof or the maximum amount available thereunder.

Except as otherwise provided in the Resolution, the Trustee or the Co-Trustee, if any, shall sell at the best price obtainable, or present for redemption, any obligation so purchased as an investment whenever it shall be requested in writing by an Authorized Officer of the City so to do. Whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by the Trustee or the Co-Trustee, if any, the Trustee or the Co-Trustee, if any, shall sell at the best price obtainable or present for redemption such obligation or obligations designated by an Authorized Officer of the City necessary to provide sufficient moneys for such payment or transfer; provided, however, that if the City fails to provide such designation promptly after request thereof by the Trustee or the Co-Trustee, if any, the Trustee or the Co-Trustee, if any, may in its discretion select the obligation or obligations to be sold or presented for redemption. Neither the Trustee nor the Co-Trustee, if any, shall be liable or responsible for any loss resulting from the making of any such investment or the sale of any obligation in the manner provided above.

ARTICLE VII

PARTICULAR COVENANTS OF THE CITY

The City covenants and agrees with the Trustee and the Bondholders as follows:

**SECTION 701. Payment of Bonds.** The City shall duly and punctually pay or cause to be paid, but solely from the Trust Estate, and, in the case of the Bonds of each Additionally Secured Series, the separate subaccount in the Debt Service Reserve Account in the Debt Service Fund with respect thereto, the principal or Redemption Price of every Bond and the interest thereon, at the dates and places and in the manner mentioned in the Bonds, according to the true intent and meaning thereof.

**SECTION 702. Extension of Payment of Bonds.** The City shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of claims for interest by the funding of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time for payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Resolution, to the benefit of the Resolution or to any payment out of Revenues or Funds established by the Resolution, including the investments, if any, thereof, pledged under the Resolution or the moneys (except moneys held in trust for the payment of particular Bonds or claims for interest pursuant to the Resolution) held by the Fiduciaries, except subject to the prior payment of the principal of all Bonds Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest. Nothing herein shall be deemed to limit the right of the City to issue Option Bonds or Refunding Bonds, and neither such issuance nor the exercise by the holder of any Option Bond of any of the rights appertaining to such Option Bond shall be deemed to constitute an extension of maturity of Bonds.

**SECTION 703. Offices for Servicing Bonds.** Except as may be otherwise provided in any Supplemental Resolution with respect to any Series of Bonds, to the extent any Bonds (other than Parity Reimbursement Obligations) Outstanding are not held in Book-Entry Form, the City shall at all times maintain one or more agencies in New York, New York where Bonds may be presented for payment and shall at all times maintain one or more agencies in New York, New York where Bonds may be presented for registration, transfer or exchange. The City shall at all times maintain one or more agencies in New York, New York where notices, demands and other documents may be served upon the City in respect of the Bonds or of the Resolution. The City hereby appoints the Trustee, initially, as the Bond Registrar to maintain the agency for the registration, transfer or exchange of Bonds, and for the service upon the City of such notices, demands and other documents, and the Trustee or any successor Bond Registrar shall continuously maintain or make arrangements to provide such services. The City hereby appoints the Paying Agents in such cities as its respective agents to maintain such agencies for the payment or redemption of Bonds.

**SECTION 704. Further Assurance.** At any and all times the City shall, as far as it may be authorized by law, comply with any reasonable request of the Trustee or the Co-Trustee to 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, Revenues and other 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 705. Power to Issue Bonds and Pledge Revenues and Other Funds.** The City is duly authorized under all applicable laws to create and issue the Bonds and to adopt the Resolution and to pledge the Trust Estate and, in the case of the Bonds of each Additionally Secured Series,

the separate subaccount in the Debt Service Reserve Account in the Debt Service Fund with respect thereto, in the manner and to the extent provided in the Resolution. Except to the extent otherwise provided in the Resolution, the Trust Estate and each separate subaccount in the Debt Service Reserve Account in the Debt Service Fund 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 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 Bonds and the provisions of the 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. The City shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Trust Estate and each separate subaccount in the Debt Service Reserve Account in the Debt Service Fund and all the rights of the Bondholders under the Resolution against all claims and demands of all persons whomsoever.

**SECTION 706. Power to Fix and Collect Rates, Fees and Charges.** The City has, and will have as long as any Bonds are Outstanding, good right and lawful power to establish and collect rates, fees and charges with respect to the use and the sale of the capacity, output or service of the System subject to the terms of contracts relating thereto and subject to the jurisdiction of any applicable regulatory authority.

**SECTION 707. Creation of Liens; Sale and Lease of Property.** 1. The City shall not issue any bonds, notes, debentures, or other evidences of indebtedness of similar nature, other than the Bonds and Parity Hedging Contract Obligations, payable out of or secured by a security interest in or pledge or assignment of the Trust Estate, any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund or other moneys, securities or funds held or set aside by the City or by the Fiduciaries under the Resolution and shall not create or cause to be created any lien or charge on the Trust Estate, any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund or such moneys, securities or funds; provided, however, that nothing contained in the Resolution shall prevent the City from issuing, if and to the extent permitted by law, (i) evidences of indebtedness (a) payable out of moneys in the Construction Fund as part of the Cost of Acquisition and Construction of the System, or (b) payable out of, or secured by a security interest in or pledge or assignment of, Revenues to be received on and after such date as the pledge of the Revenues provided in the Resolution shall be discharged and satisfied as provided in Section 1201, (ii) Subordinated Indebtedness, and (iii) any other indebtedness which contains an express statement that such obligations are junior and subordinate in all respects to the Bonds issued hereunder as to lien on, source of and security for payment from Revenues and the Trust Estate.

2. No part of the System shall be sold, leased, mortgaged or otherwise disposed of, except as follows:

(1) The City may sell or exchange at any time and from time to time any property or facilities constituting part of the System only if it shall determine that the sale or exchange of such property or facilities will not impair the ability of the City to comply during the current or any future Fiscal Year with the provisions of Section 710. The proceeds of any such sale or exchange not used to acquire other property necessary or desirable for the safe or efficient operation of the System shall forthwith be deposited in the Utilities Plant Improvement Fund or shall be deposited into the Debt Service Fund and used to provide for the payment of principal of and interest on a Series of Bonds as such Bonds shall become due or for the redemption thereof or shall be applied for such other purposes that in the opinion of Bond Counsel will not, in and of itself, result in interest on any tax-exempt Bonds to be includable in the gross income of the holders thereof for Federal income tax purposes; and

(2) In addition to any agreement currently in effect to which the City is a party relating to the ownership or operation of any part of the System or the use of the output thereof, the City

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may lease or make contracts or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights with respect to, any part of the System, provided that any such lease, contract, license, arrangement, easement or right (i) does not impede the operation by the City or its agents of the System and (ii) does not in any manner materially impair or adversely affect the rights or security of the Bondholders under the Resolution; and provided, further, that if the book value of the property to be covered by any such lease, contract, license, arrangement, easement or other right is in excess of 1% of the book value of the total assets of the System at such time, the City shall first file with the Trustee a certificate of an Authorized Officer of the City setting forth a determination of the Commission that the action of the City with respect thereto does not result in a breach of the conditions under this clause (2). Any payments received by the City under or in connection with any such lease, contract, license, arrangement, easement or right in respect of the System or any part thereof shall constitute Revenues;

(3) The limitations imposed upon the City by clauses (1) and (2) of this paragraph 2 shall not apply to any disposition of property by the City where: (i) such property is leased back to the City under a lease having a term of years (including renewal options) of not less than 75% of the remaining estimated useful life of the property computed from the date of disposition and lease, (ii) fair value to the City (as determined by the City) is received by the City for the property subject to such transaction, (iii) proceeds of such transaction, after payment of expenses, are set aside as a deposit in the Utilities Plant Improvement Fund, and (iv) the Trustee receives a certified copy of resolutions of the Commission to the effect that, based upon such certificates and opinions as the Commission shall deem necessary or appropriate, the Commission has determined that the disposition and lease are not materially adverse to the Holders of the Bonds; and

(4) The City may permanently discontinue the acquisition or construction of any portion of the System as provided in paragraph 5 of Section 503.

**SECTION 708. Annual Budget.** For each Fiscal Year the City shall prepare and adopt a budget for the System for the next ensuing Fiscal Year. Such budget shall be promptly delivered to the Trustee and the Co-Trustee, if any. If necessary, the City shall immediately increase rates if and when any such increase is required in order to produce budgeted anticipated Revenues, or to comply with the requirements of the rate covenant in Section 710 hereof.

**SECTION 709. Operation and Maintenance of System.** The City shall at all times use its best efforts to operate or cause to be operated the System properly and in an efficient and economical manner, consistent with Prudent Utility Practice, and shall use its best efforts to maintain, preserve, reconstruct and keep the same or cause the same to be so maintained, preserved, reconstructed and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and condition, and shall from time to time make, or use its best efforts to cause to be made, all necessary and proper repairs, replacements and renewals so that at all times the operation of the System may be properly and advantageously conducted.

**SECTION 710. 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 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.

2. 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.

3. In estimating Aggregate Debt Service on any Variable Rate Bonds, Parity Commercial Paper Notes or Parity Medium-Term Notes for purposes of paragraph 1 of this Section 710, 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.

**SECTION 711. Enforcement of Charges and Connections.** The City shall compel the prompt payment of rates, fees, rentals and charges imposed for service rendered by the System, and to that end will vigorously enforce all of the provisions of any ordinance or resolution of the City having to do with electric, water, wastewater, natural gas and telecommunications connections and charges and any other System charges, and all of the rights and remedies permitted the City under law. The City by this Section expressly covenants and agrees to exercise and enforce every right and remedy legally available to it to the end that such rates, fees, rentals and charges will be enforced and promptly collected to the full extent permitted by law.

**SECTION 712. Maintenance of Insurance; Reconstruction; Application of Insurance Proceeds.** 1. The City shall provide protection for the System both in accordance with the requirements of all agreements, if any, to which the City may at the time be a party with respect to joint ownership by the City with others of electric, water, wastewater, natural gas, telecommunications or other System facilities, and in accordance with Prudent Utility Practice. Said protection may consist of insurance, self insurance and indemnities. The City will keep, or cause to be kept, the works, plants and facilities comprising the properties of the System insured, and will carry such other insurance against fire and other risks, accidents or casualties at least to the extent and of the kinds that insurance is usually carried by utilities operating like properties. Any insurance shall be in the form of policies or contracts for insurance with insurers of good standing, shall be payable to the City and may provide for such deductibles, exclusions, limitations, restrictions and restrictive endorsements customary in policies for similar coverage issued to entities operating properties similar to the properties of the System. Any self insurance shall be in the amounts, manner and of the type provided by entities operating properties similar to the properties of the System. Within one hundred and eighty (180) days after the close of each Fiscal Year the City will file with the Trustee and the Co-Trustee, if any, a certificate stating whether during such year the System has suffered damage or destruction in an amount of more than \$2,000,000 and, if so, the amount of insurance proceeds received on account of such damage or destruction and specifying the reasonable and necessary cost of reconstruction or replacement.

2. In the event of any loss or damage to the System covered by insurance, the City will, with respect to each such loss, promptly repair, reconstruct or replace the parts of the System affected by such loss or damage to the extent necessary to the proper conduct of the operation of the business of the System, shall cause the proceeds of such insurance to be applied for that purpose to the extent required

therefor, and pending such application shall hold the proceeds of any insurance policy covering such damage or loss in trust to be applied for that purpose to the extent required therefor. Any excess insurance proceeds received by the City shall be transferred to the Revenue Fund.

**SECTION 713. Accounts and Reports.** 1. The City shall keep or cause to be kept proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the System and each Fund and Account established under the Resolution in accordance with the Uniform System of Accounts. All such books of record, together with all other books and papers of the City, including insurance policies, relating to the System, shall at all times be subject to the inspection of the Trustee, the Co-Trustee and the Holders of an aggregate of not less than 5% in principal amount of the Bonds then Outstanding or their representatives duly authorized in writing.

2. The Trustee and the Co-Trustee shall advise the City promptly after the end of each month of their respective transactions during such month relating to each Fund and Account held by them under the Resolution. The City shall advise the Trustee and the Co-Trustee, if any, promptly after the end of each fiscal quarter of transactions during such quarter relating to each Fund and Account held by it under the Resolution.

3. The City shall annually, within one hundred and eighty (180) days after the close of each Fiscal Year, file with the Trustee and the Co-Trustee, if any, and otherwise as provided by law, a copy of an annual report for such Fiscal Year, accompanied by an Accountant's Report relating to the System and including the following statements in reasonable detail: a balance sheet of the System at the close of such Fiscal Year; and a Statement of Revenues and Operation and Maintenance Expenses for such Fiscal Year. Such Accountant's Report shall also state that in the course of the examination made for purposes of such report, such accountant or firm of accountants, as the case may be, obtained no knowledge, except as specifically stated, of any default by the City, with respect to any of the covenants, agreements or conditions on its part contained in the Resolution.

4. In the event that the annual report of the City pursuant to paragraph 3 of this Section 713 shows that the Net Revenues for the preceding Fiscal Year were not equal to at least 1.10 times the Aggregate Debt Service for such preceding Fiscal Year, the City shall cause the Consulting Engineer to file with the City, the Trustee and the Co-Trustee, if any, a certificate stating specific changes in operation procedures or revisions in rates, fees and charges, or both, which may be made and which would, in the aggregate, in its opinion, have resulted in Net Revenues being equal to at least 1.25 times the Aggregate Debt Service for such preceding Fiscal Year. Within 30 days of receipt of any such certificate, the City shall be entitled to present to the Consulting Engineer, for its consideration, alternative recommendations for the purpose of achieving such level of debt service coverage. The City covenants and agrees to effect the changes, revisions or both, which the Consulting Engineer determines, after consideration of the recommendations of the City, would, in the aggregate, have produced such level of debt service coverage. The Consulting Engineer shall promptly file a certificate setting forth such determination with the City, the Trustee and the Co-Trustee, if any.

5. The reports, statements and other documents required to be furnished to the Trustee pursuant to any provisions of the Resolution shall be available for the inspection of Bondholders at the office of the Trustee and shall be mailed to each Bondholder who shall file a written request therefor with the City. The City may charge for such reports, statements and other documents, a reasonable fee to cover reproduction, handling and postage.

**SECTION 714. Payment of Taxes and Charges.** The City will from time to time duly pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges, or required payments in lieu thereof, lawfully imposed upon the properties of the City or upon the

rights, revenues, income, receipts, and other moneys, securities and funds of the City when the same shall become due (including all rights, moneys and other property transferred, assigned or pledged under the Resolution), and all lawful claims for labor and material and supplies, except those taxes, assessments, charges or claims which the City shall in good faith contest by proper legal proceedings if the City shall in all such cases have set aside on its books reserves deemed adequate with respect thereto.

**SECTION 715. No Diminution of Rights.** The City will not enter into any contract or arrangement, nor take any action, the results of which might impair or diminish the rights of the Holders of the Bonds. The City, unless prevented by lawful authority beyond control of the City, shall continue to render electric, water, wastewater and other services of the System within the unincorporated areas of Alachua County and shall continue to extend such services as reasonably prudent so to do. The City shall not voluntarily give up any service area of the System unless the City shall determine that such action will not materially impair or diminish the rights of the Holders of the Bonds, and the City shall in good faith resist all efforts which may result in the diminution of such service area. The City shall not surrender its power and authority to fix and maintain rates and conditions for services of the System, and the City shall in good faith resist all efforts which may result in the abridgement or diminution of any such power and authority.

**SECTION 716. Governmental Reorganization.** Notwithstanding any other provisions of this Resolution, including without limitation, paragraph 2 of Section 707 and Section 715 hereof, this Resolution shall not prevent any lawful reorganization of the governmental structure of the City, including a merger or consolidation of the City with another public body or the transfer of a public function of the City to another public body, provided that any reorganization which affects the System shall provide that the System shall be continued as a single enterprise and that any public body which succeeds to the ownership and operation of the System shall also assume all rights, powers, obligations, duties and liabilities of the City under this Resolution and pertaining to all Bonds. Except as permitted in this Section 716, the City shall not cause or permit its corporate existence to be abolished and shall resist all attempts to contract or diminish the territorial limits of the City or the service area of the System. This Resolution may be amended to revise the definitions of the City and the Commission to reflect such governmental reorganization and this Resolution may be amended in any other respect as determined by the City will not adversely affect the rights of the Holders of the Bonds in order to effectuate such reorganization. The governmental reorganization hereby expressly includes amendments necessary if and to the extent that a referendum held pursuant to in accordance with House Bill No. 759 or such other actions of the City, approves amending the City's Charter, to effectuate a reorganization of the management and operation of the City.

**SECTION 717. Additional Utility Functions.** The City may expand the utility functions of the System as they exist on the date hereof as permitted by the proviso contained in the definition of "System" in Section 101, only if the City files with the Trustee a certified copy of resolutions of the Commission to the effect that, based upon such certificates and opinions of its Consulting Engineers, independent certified public accountants, bond counsel, financial advisors or other appropriate advisors as the Commission shall deem necessary or appropriate, the addition of such utility functions (a) will not impair the ability of the City to comply during the current or any future Fiscal Year with the provisions of the Resolution, including specifically Section 710, and (b) will not materially adversely affect the rights of the Holders of the Bonds.

**SECTION 718. 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 Resolution.

2. Upon the date of authentication and delivery of any of the Bonds, all conditions, acts and things required by law and the Resolution to exist, to have happened and to have been performed

precedent to and in the issuance of such Bonds shall exist, have happened and have been performed and the issuance of such Bonds shall comply in all respects with the applicable laws of the State of Florida.

#### ARTICLE VIII

##### EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS

**SECTION 801. Events of Default.** If one or more of the following Events of Default shall happen:

(i) if default shall be made in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity or by call or proceedings for redemption, or otherwise;

(ii) if default shall be made in the due and punctual payment of any installment of interest on any 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 710 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 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 Resolution or in the Bonds contained, and such default shall have continued 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 the Trustee or to the City and to the Trustee by the Holders of not less than 25% in principal amount of the Bonds Outstanding;

(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; or

(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;

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 Bonds shall have already become due and payable, either the Trustee (by notice in writing to the City and the Co-Trustee, if any), or the Holders of not less than 25% in principal amount of the Bonds Outstanding (by notice in writing to the City, the Trustee and the Co-Trustee, if any), may declare the principal of all the 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 Resolution or in any of the Bonds contained to the contrary

notwithstanding. The right of the Trustee or of the Holders of not less than 25% in principal amount of the 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 Bonds shall have matured by their terms, all overdue installments of interest on the 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 Resolution (except the principal of, and interest accrued since the next preceding interest date on, the Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the City or provision satisfactory to the Trustee and the Co-Trustee, if any, shall be made for such payment, and all defaults under the Bonds or under the Resolution (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be made good or be secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, then and in every such case the Holders of 25% in principal amount of the Bonds Outstanding, by written notice to the City, the Trustee and the Co-Trustee, if any, may rescind such declaration and annul such default in its entirety, or, if the Trustee shall have acted itself, and if there shall not have been theretofore delivered to the Trustee written direction to the contrary by the Holders of 25% in principal amount of the Bonds Outstanding, then any such declaration shall *ipso facto* be deemed to be rescinded and any such default shall *ipso facto* be deemed to be annulled, 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 802. 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 Trustee and of its 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 Trustee, will account, as if it were the trustee of an express trust, for all Revenues and other moneys, securities and funds pledged or held under the Resolution for such period as shall be stated in such demand.

**SECTION 803. Application of Revenues and Other Moneys After Default.** 1. The City covenants that if an Event of Default shall happen and shall not have been remedied, the City, upon the demand of the Trustee, shall pay over or cause to be paid over to the Trustee (i) forthwith, all moneys, securities and funds then held by the City in any Fund under the Resolution, and (ii) all Revenues as promptly as practicable after receipt thereof.

2. During the continuance of an Event of Default, the Trustee shall apply all moneys, securities, funds and Revenues received by the Trustee pursuant to any right given or action taken under the provisions of this Article (other than amounts on deposit in any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund) as follows and in the following order:

(i) Expenses of Fiduciaries – to the payment of the reasonable and proper charges, expenses and liabilities of the Fiduciaries;

(ii) Operation and Maintenance Expenses – to the payment of the amounts required for reasonable and necessary Operation and Maintenance Expenses and for the reasonable renewals, repairs and replacements of the System necessary in the judgment of the Trustee to prevent a loss of Revenues. For this purpose the books of records and accounts of the City relating to the System shall at all times be subject to the inspection of the Trustee and its representatives and agents during the continuance of such Event of Default;

(iii) Principal or Redemption Price and Interest – to the payment of the interest and principal or Redemption Price then due on the Bonds and the interest and principal components of Parity Hedging Contract Obligations, as follows:

(a) unless the principal of all of the Bonds 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 on the Bonds and on the interest component of Parity Hedging Contract Obligations in the order of the maturity of such installments, together with accrued and unpaid interest on the Bonds 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 Bonds and the principal component of Parity Hedging Contract Obligations which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Bonds and the principal component of Parity Hedging Contract Obligations 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.

(b) if the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds and the principal and interest components of Parity Hedging Contract Obligations 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 Bond or Parity Hedging Contract Obligation over any other Bond or Parity Hedging Contract Obligation, 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 Bonds and the Parity Hedging Contract Obligations.

During the continuance of an Event of Default, the Trustee shall apply all amounts on deposit in each separate subaccount in the Debt Service Reserve Account in the Debt Service Fund as follows and in the following order:

(c) unless the principal of all of the Bonds 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 on the Bonds of each Additionally Secured Series secured by such separate subaccount in the order of the maturity of such installments, together with accrued and unpaid interest on the Bonds of such Additionally Secured Series theretofore called for redemption, and, if the amount available shall not be sufficient to pay in full any such 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 sinking fund Redemption Price of any Bonds of such

Additionally Secured Series which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all such Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or sinking fund Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(d) if the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds of each Additionally Secured Series secured by such separate subaccount 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 such Bond over any other such Bond, 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 such Bonds.

3. If and whenever all overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums payable by the City under the Resolution, including the principal and Redemption Price of and accrued unpaid interest on all 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 Resolution or the 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 (except moneys, securities and funds deposited or pledged, or required by the terms of the Resolution 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 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 Resolution or impair any right consequent thereon.

**SECTION 804. Appointment of Receiver.** The Trustee shall have the right to apply in an appropriate proceeding for the appointment of a receiver of the System.

**SECTION 805. Proceedings Brought by Trustee.** 1. If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon written request of the Holders of not less than 25% in principal amount of the Bonds Outstanding shall proceed, to protect and enforce its rights and the rights of the Holders of the Bonds under the Resolution forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant herein contained, or in aid of the execution of any power herein granted or any remedy granted under the Act, or for an accounting against the City as if the City were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Resolution.

2. All rights of action under the Resolution may be enforced by the Trustee without the possession of any of the Bonds or the production thereof at the trial or other proceedings, and any such suit or proceedings instituted by the Trustee shall be brought in its name.

3. The Holders of not less than a majority in principal amount of the Bonds at the time Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, provided that the Trustee shall have the right to decline to follow any such direction if (a) the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, (b) the Trustee in good faith

shall determine that the action or proceeding so directed would involve the Trustee in personal liability, unless such holders shall agree to indemnify the Trustee against such liability and shall post bond in respect of such indemnity, or (c) the Trustee in good faith shall determine that the action or proceeding so directed would be unjustly prejudicial to the Bondholders not parties to such direction.

4. Upon commencing a suit in equity or upon other commencement of judicial proceedings by the Trustee to enforce any right under the Resolution, the Trustee shall be entitled to exercise any and all rights and powers conferred in the Resolution and provided to be exercised by the Trustee upon the occurrence of any Event of Default.

5. Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the Holders of a majority in principal amount of the Bonds then Outstanding, and furnished with reasonable security and indemnity, shall be under no obligation to, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under the Resolution by any acts which may be unlawful or in violation of the Resolution, and such suits and proceedings as the Trustee may be advised shall be necessary or expedient to preserve or protect its interests and the interests of the Bondholders.

**SECTION 806. Restriction on Bondholder's Action.** 1. No Holder of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless such Holder shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in this Article, and the Holders of at least 25% in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity, either to exercise the powers granted in the Resolution or by the Act or by the other laws of Florida or to institute such action, suit or proceeding in its own name, and unless such Holders shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by such Holders' action to affect, disturb or prejudice the pledge created by the Resolution, or to enforce any right under the Resolution, except in the manner therein provided; and that all proceedings at law or in equity to enforce any provision of the Resolution shall be instituted, had and maintained in the manner provided in the Resolution and for the equal benefit of all Holders of the Outstanding Bonds, subject only to the provisions of Section 702.

2. Nothing in the Resolution or in the Bonds shall affect or impair the obligation of the City, which is absolute and unconditional, to pay, solely from the Trust Estate and, in the case of the Bonds of any Additionally Secured Series, the separate subaccount in the Debt Service Reserve Account in the Debt Service Fund established with respect thereto, at the respective dates of maturity and places therein expressed the principal of (and premium, if any) and interest on the Bonds to the respective Holders thereof, or affect or impair the right of action, which is also absolute and unconditional, of any Holder to enforce such payment of such Holder's Bond.

**SECTION 807. Remedies Not Exclusive.** No remedy by the terms of the Resolution conferred upon or reserved to the Trustee or the Bondholders 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 Resolution or existing at law, including under the Act, or in equity or by statute on or after the date of adoption of the Resolution.

**SECTION 808. Effect of Waiver and Other Circumstances.** 1. No delay or omission of the Trustee or any Bondholder 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 Trustee or to the Bondholders may be exercised from time to time and as often as may be deemed expedient by the Trustee or by the Bondholders.

2. Prior to the declaration of maturity of the Bonds as provided in Section 801, the Holders of not less than 66-2/3% in aggregate principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the Holders of all of the Bonds waive any past default under the Resolution and its consequences, except a default in the payment of interest on or principal of or premium (if any) on any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

**SECTION 809. Notice of Default.** The Trustee shall promptly mail written notice of the occurrence of any Event of Default to each registered owner of Bonds then Outstanding at such owner's address, if any, appearing on the registry books of the City.

## ARTICLE IX

### CONCERNING THE FIDUCIARIES

**SECTION 901. Trustee and Co-Trustee; Appointment and Acceptance of Duties.** 1. U.S. Bank Trust National Association shall serve as the initial Trustee hereunder.

2. The Co-Trustee, if any, shall be appointed by a Supplemental Resolution. The Co-Trustee shall signify its acceptance of the duties and obligations imposed upon it by the Resolution and all other agreements with the City by executing and delivering to the City a written acceptance thereof.

**SECTION 902. Paying Agents; Appointment and Acceptance of Duties.** 1. The City shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 913 for a successor Paying Agent. The Trustee or the Co-Trustee may be appointed a Paying Agent.

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

3. Unless otherwise provided, the offices of the 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 Bonds.

**SECTION 903. Responsibilities of Fiduciaries.** 1. The recitals herein and in the Bonds contained shall be taken as the statements of the City, and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representation as to the validity or sufficiency of the Resolution or of any Bonds issued thereunder or as to the security afforded by the Resolution, and no Fiduciary shall incur any liability in respect thereof. The Trustee shall, however, be responsible for its representation contained in its certificate of authentication on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid by such Fiduciary in accordance with the provisions of the Resolution to or upon the order of the City or to any other Fiduciary. No 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. Subject to the provisions of paragraph 2 of this Section 903, no Fiduciary shall be liable in

connection with the performance of its duties hereunder except for its own negligence, misconduct or default.

2. The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Resolution. In case an Event of Default has occurred (which has not been cured) the Trustee shall exercise such of the rights and powers vested in it by the Resolution, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs. Any provision of the Resolution relating to action taken or to be taken by the Trustee or to evidence upon which the Trustee may rely shall be subject to the provisions of this Section 903.

**SECTION 904. Evidence on Which Fiduciaries May Act.** 1. Each 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 Resolution, shall examine such instrument to determine whether it conforms to the requirements of the 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 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 Resolution in good faith and in accordance therewith.

2. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the 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 Resolution upon the faith thereof; but in its discretion the 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 Resolution, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision thereof by the City to any Fiduciary shall be sufficiently executed when the same is executed in the name of the City by an Authorized Officer of the City.

**SECTION 905. Compensation.** Prior to its appointment, each Fiduciary shall file with the City a negotiated schedule of anticipated fees and charges for services to be performed pursuant to the Resolution. The City shall pay to each Fiduciary from time to time pursuant to such schedule reasonable compensation for all services rendered under the 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 Resolution, and each Fiduciary shall have a lien therefor on any and all funds at any time held by it under the Resolution.

**SECTION 906. Certain Permitted Acts.** Any Fiduciary may become the owner of any Bonds, with the same rights it would have if it were not a Fiduciary. To the extent permitted by law, any Fiduciary may act as depository 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 Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or the Resolution, whether or not any such committee shall represent the Holders of a majority in principal amount of the Bonds then Outstanding.

**SECTION 907. Resignation of Trustee or Co-Trustee.** The Trustee or the Co-Trustee may at any time resign and be discharged from the duties and obligations created by the Resolution by giving notice of such resignation as hereinafter provided. Such notice shall specify the date when such resignation shall take effect, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed by the City or the Bondholders as provided in Section 909, in which event such resignation shall take effect immediately on the appointment of such successor. Such notice shall be mailed by first class mail, postage prepaid, not less than 60 days prior to the proposed date on which such resignation shall become effective, to the City, the Co-Trustee and the Holders of all Outstanding Bonds, at their last addresses, if any, appearing upon the registration books of the City kept by the Bond Registrar.

**SECTION 908. Removal of Trustee or Co-Trustee.** The Trustee or the Co-Trustee may be removed at any time with or without cause by an instrument or concurrent instruments in writing, filed with the Trustee or the Co-Trustee, and signed by the Holders of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized. So long as no Event of Default or an event which, with notice or passage of time, or both, would become an Event of Default, shall have occurred and be continuing, the Trustee or the Co-Trustee may be removed at any time for cause by resolution of the City filed with the Trustee or the Co-Trustee, as the case may be.

**SECTION 909. Appointment of Successor Trustee or Co-Trustee.** 1. In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, a successor may be appointed by the City by a duly executed written instrument signed by an Authorized Officer of the City, but if the City does not appoint a successor Trustee within 60 days, then by the Holders of a majority in principal amount of the Bonds then Outstanding, by an instrument or concurrent instruments in writing signed and acknowledged by such Bondholders or by their attorneys-in-fact duly authorized and delivered to such successor Trustee, notification thereof being given to the City and the predecessor Trustee. The City shall give notice of any such appointment made by it or the Bondholders by first class mail, postage prepaid, within 20 days after such appointment, to the Holders of all Outstanding Bonds, at their last addresses, if any, appearing upon the registration books of the City kept by the Bond Registrar.

2. In case at any time the Co-Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Co-Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Co-Trustee, or of its property or affairs, a successor may be appointed by the City by a duly executed written instrument signed by an Authorized Officer of the City, but if the City does not appoint a successor Co-Trustee within 60 days then the Trustee shall automatically, without any further act, deed or conveyance, become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of the predecessor Co-Trustee with like effect as if originally vested with the same. The City shall give notice of any such appointment or transfer by first class mail, postage prepaid, within 20 days after such appointment or transfer, to the Holders of all Outstanding Bonds, at their last addresses, if any, appearing upon the registration books of the City kept by the Bond Registrar.

3. If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within 45 days after the Trustee shall have given to the City written notice as provided in Section 907 or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Co-Trustee or the Holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Trustee.

4. Any Trustee or Co-Trustee appointed under the provisions of this Section in succession to the Trustee or Co-Trustee shall be a bank or trust company or national banking association, having capital stock, surplus and undivided earnings aggregating at least \$50,000,000, if there be such a bank or trust company or national banking association 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 Resolution.

**SECTION 910. Transfer of Rights and Property to Successor Trustee or Co-Trustee.** Any successor Trustee or Co-Trustee appointed under the Resolution shall execute, acknowledge and deliver to its predecessor Trustee or Co-Trustee, and also to the City, an instrument accepting such appointment, and thereupon such successor Trustee or Co-Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee or Co-Trustee, with like effect as if originally named as Trustee or Co-Trustee; but the Trustee or Co-Trustee ceasing to act shall nevertheless, on the written request of the City, or of the successor Trustee or Co-Trustee, execute, acknowledge and deliver such instrument of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee or Co-Trustee all the right, title and interest of the predecessor Trustee or Co-Trustee in and to any property held by it under the Resolution, and shall pay over, assign and deliver to the successor Trustee or Co-Trustee any money or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from the City be reasonably required by such successor Trustee or Co-Trustee for more fully and certainly vesting in and confirming to such successor Trustee or Co-Trustee any such estates, rights, power and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by the City. The City shall promptly notify the Paying Agents of the appointment of any such successor Trustee or Co-Trustee.

**SECTION 911. Merger or Consolidation.** Any company into which any 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 Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a bank or trust company organized under the laws of any state of the United States or a national banking association and shall be authorized by law to perform all duties imposed upon it by the Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act.

**SECTION 912. Adoption of Authentication.** In case any of the Bonds contemplated to be issued under the Resolution shall have been authenticated but not delivered, any successor Trustee may adopt the certificate of authentication of any predecessor Trustee so authenticating such Bonds and deliver such Bonds so authenticated; and in any case of the said Bonds shall not have been authenticated, any successor Trustee may authenticate such Bonds in the name of the predecessor Trustee, or in the name of the successor Trustee, and in all such cases such certificate shall have the full force which it is anywhere in said Bonds or in the Resolution provided that the certificate of the Trustee shall have.

**SECTION 913. Resignation or Removal of Paying Agent and Appointment of Successor.** 1. Any Paying Agent may at any time resign and be discharged of the duties and obligations created by the Resolution by giving at least 60 days' written notice to the City, the Trustee, and the other Paying Agents. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent and the Trustee and signed by an Authorized Officer of the City. Any successor Paying Agent shall be appointed by the City and shall be 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 Resolution.

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

**SECTION 914. Bond Registrar.** 1. Any Bond Registrar may at any time resign and be discharged of the duties and obligations created by the Resolution by giving at least 60 days' written notice to the City and the Trustee, if the Bond Registrar is an institution other than the Trustee. The Bond Registrar may be removed at any time by an instrument filed with such Bond Registrar and the Trustee, if the Bond Registrar is an institution other than the Trustee, and signed by an Authorized Officer of the City, provided that a successor Bond Registrar has been appointed by the City.

2. The resignation or removal of the Trustee as Bond Registrar pursuant to paragraph 1 of this Section 914 shall not simultaneously constitute a resignation or removal of the Trustee. Any Trustee acting as Bond Registrar pursuant to Section 703, however, who resigns or is removed as Trustee pursuant to Section 907 or 908, respectively, shall automatically cease to be Bond Registrar, and the City may, at its option, appoint a successor Bond Registrar other than the successor Trustee.

## ARTICLE X

### SUPPLEMENTAL RESOLUTIONS

**SECTION 1001. Supplemental 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 Resolution of the City 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 Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Resolution on, the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;
- (2) To add to the covenants and agreements of the City in the Resolution, other covenants and agreements to be observed by the City which are not contrary to or inconsistent with the Resolution as theretofore in effect;
- (3) To add to the limitations and restrictions in the Resolution, other limitations and restrictions to be observed by the City which are not contrary to or inconsistent with the Resolution as theretofore in effect;
- (4) To authorize Bonds of a Series and, in connection therewith, specify and determine the matters and things referred to in Section 202, and also any other matters and things relative to such Bonds which are not contrary to or inconsistent with the 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 Bonds;
- (5) 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 Resolution, of the Revenues or of any other moneys, securities or funds;
- (6) To modify any of the provisions of the Resolution in any other respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds

of each Series Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding, and (ii) such Supplemental Resolution shall be specifically referred to in the text of all Bonds of any Series authenticated and delivered after the date of the adoption of such Supplemental Resolution and of Bonds issued in exchange therefor or in place thereof;

(7) To authorize Subordinated Indebtedness or Parity Hedging Contract Obligations and, in connection therewith, specify and determine any matters and things relative to such Subordinated Indebtedness or Parity Hedging Contract Obligations which are not contrary to or inconsistent with the 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 Indebtedness or Parity Hedging Contract Obligations;

(8) To appoint the Co-Trustee;

(9) To provide for the issuance, execution, delivery, authentication, payment, registration, transfer and exchange of 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; and

(10) If and to the extent authorized in a Supplemental Resolution authorizing an Additionally Secured Series of Bonds, to specify the qualifications of any provider of an obligation similar to a surety bond, insurance policy or letter of credit for deposit into the particular subaccount in the Debt Service Reserve Account securing the Bonds of such Additionally Secured Series.

**SECTION 1002. Supplemental Resolutions Effective Upon Consent of Trustee.**

For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which, upon (i) the filing with the Trustee and the Co-Trustee, if any, of a copy thereof certified by an Authorized Officer of the City, and (ii) the filing with the Co-Trustee, if any, and the City of an instrument in writing made by the Trustee consenting thereto, 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 Resolution;

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

(3) To make any other modification or amendment of the Resolution which the Trustee shall in its sole discretion determine will not have a material adverse effect on the interests of Bondholders.

In making any determination under clause (3) of this Section 1002, the Trustee may conclusively rely upon an Opinion of Counsel (which opinion may rely upon the opinions of experts) or a certificate of a Consulting Engineer.

**SECTION 1003. Supplemental Resolutions Effective With Consent of Bondholders.** At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article XI, which Supplemental Resolution, upon the filing with the Trustee and the Co-Trustee, if any, of a copy thereof certified by an Authorized Officer of the City and upon compliance with the provisions of said Article XI, shall become fully effective in accordance with its terms as provided in said Article XI; provided, however, that

notwithstanding anything to the contrary contained herein, until such time as all Bonds issued prior to the Effective Date no longer shall be Outstanding, the provisions of Article XI of the Original Resolution (and not the provisions of Article XI hereof) shall govern the procedures with respect to the effectiveness of any Supplemental Resolution requiring the consent of the Holders of any Bonds.

**SECTION 1004. General Provisions.** 1. The 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. Nothing in this Article X or Article XI contained shall affect or limit the right or obligation of the City to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 704 or the right or obligation of the City to execute and deliver to any Fiduciary any instrument which elsewhere in the Resolution it is provided shall be delivered to said Fiduciary.

2. Any Supplemental Resolution referred to and permitted or authorized by Sections 1001 or 1002 may be adopted by the City without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Section. The copy of every Supplemental Resolution when filed with the Trustee shall be accompanied by an Opinion of Counsel stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the City in accordance with its terms.

3. The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by Sections 1001 or 1002 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 Resolution is authorized or permitted by the provisions of the Resolution.

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

**ARTICLE XI  
AMENDMENTS**

**SECTION 1101. Mailing and Publication.** 1. Any provision in this Article for the mailing of a notice or other paper to Bondholders shall be fully complied with if it is mailed postage prepaid only (i) to each registered owner of Bonds then Outstanding at such owner's address, if any, appearing upon the registry books of the City and (ii) 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 1102. Powers of Amendment.** Any modification or amendment of the Resolution and of the rights and obligations of the City and of the Holders of the Bonds thereunder, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in Section 1103 (i) of the Holders of not less than a majority in principal amount of the 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 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 Bonds of any specified like Series and maturity remain outstanding the consent of the Holders of such Bonds shall not be required and

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such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding 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 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 Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of the Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series. The Trustee may in its discretion determine whether or not in accordance with the foregoing powers of amendment Bonds of any particular Series or maturity would be affected by any modification or amendment of the Resolution and any such determination shall be binding and conclusive on the City and all Holders of Bonds. For purposes of this Section, the Holders of any Bonds may include the initial Holders thereof, regardless of whether such Bonds are being held for resale.

**SECTION 1103. Consent of Bondholders.** The City may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of Section 1102 to take effect when and as provided in this Section. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to affected Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed by the City to affected Bondholders (but failure of any affected Holder of a Bond to receive such copy and request shall not affect the validity of the Supplemental Resolution when consented to as in this Section provided). Such Supplemental Resolution shall not be effective unless and until (i) there shall have been filed with the Trustee (with a copy to the Co-Trustee, if any) (a) the written consents of Holders of the percentages of affected Outstanding Bonds specified in Section 1102 and (b) an Opinion of Counsel stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the City in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the City and enforceable in accordance with its terms, and (ii) a notice shall have been given as hereinafter in this Section 1103 provided. It shall not be necessary that the consents of Holders of Bonds approve the particular form of wording of the proposed modification or amendment or of the proposed Supplemental 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 Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 1202. A certificate or certificates executed by the Trustee and filed with the Co-Trustee, if any, and the City stating that it has examined such proof and that such proof is sufficient in accordance with Section 1202 shall be conclusive that the consents have been given by the Holders of the Bonds described in such certificate or certificates of the Trustee. Any such consent shall be binding upon the Holder of the affected Bonds giving such consent and, anything in Section 1202 to the contrary notwithstanding, upon any subsequent Holder of such affected Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof) unless such consent is revoked in writing by the Holder of such Bonds giving such consent or a subsequent Holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter in this Section 1103 provided for is filed, such revocation. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the Co-Trustee, if any, and the City to the effect that no revocation thereof is on file with the Trustee. At any time after the Holders of the required percentages of affected Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with the Co-Trustee, if any, and the City a written statement that the Holders of such required percentages of affected Bonds have filed such consents. Such written statements shall be conclusive that such consents have been so filed. At any time thereafter, notice stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by the City on a stated date, a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentages of affected Bonds and will be effective as provided in this Section 1103, may be given

to Bondholders by the City by mailing such notice to Bondholders (but failure of any affected Holder of a Bond to receive such notice shall not prevent such Supplemental Resolution from becoming effective and binding as in this Section 1103 provided) after the Holders of the required percentages of affected Bonds shall have filed their consents to the Supplemental Resolution and the written statement of the Trustee hereinabove provided for is filed. The City shall file with the Trustee (with a copy to the Co-Trustee, if any) proof of the mailing thereof. A record, consisting of the certificates or statements required or permitted by this Section 1103 to be made by the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the City, the Fiduciaries and the Holders of all Bonds at the expiration of 40 days after the filing with the Trustee of the proof of the giving of such last-mentioned notice, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such 40 day period; provided, however, that any Fiduciary and the City during such 40 day period and any such further period during which any such action or proceeding may be pending shall be entitled in its absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

**SECTION 1104. Modifications or Amendments by Unanimous Consent.** The terms and provisions of the Resolution and the rights and obligations of the City and of the Holders of the Bonds thereunder may be modified or amended in any respect upon the adoption and filing by the City of a Supplemental Resolution and the consent of the Holders of all of the affected Bonds then Outstanding, such consent to be given as provided in Section 1103 except that no notice to affected Bondholders by mailing shall be required; provided, however, that no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders.

**SECTION 1105. Exclusion of Bonds.** 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 Bonds provided for in this Article XI, and the City shall not be entitled with respect to such 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 Bonds so to be excluded.

**SECTION 1106. Notation on Bonds.** Bonds authenticated and delivered after the effective date of any action taken as in Article X or this Article XI provided may, and, if the Trustee so determines, shall, bear a notation by endorsement or otherwise in form approved by the City and the Trustee as to such action, and in that case upon demand of the Holder of any Bond Outstanding at such effective date and presentation of such Holder's Bond for the purpose at the corporate trust office of the Trustee or upon any transfer or exchange of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Trustee as to any such action. If the City or the Trustee shall so determine, new Bonds so modified as in the opinion of the Trustee and the City to conform to such action shall be prepared, authenticated and delivered and upon demand of the Holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same Series, maturity and interest rate then Outstanding, upon surrender of such Bonds. Any action taken as in Article X or this Article XI provided shall be effective and binding upon all Bondholders notwithstanding that the notation is not endorsed on all Bonds.

## ARTICLE XII

### MISCELLANEOUS

**SECTION 1201. Defeasance.** 1. If the City shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of all 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 Resolution, then the pledge of the Trust Estate and each separate subaccount in the Debt Service Reserve Account in the Debt Service Fund, and all covenants, agreements and other obligations of the City to the Bondholders, shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall cause an accounting for such period or periods as shall be requested by the City to be prepared and filed with the City and, upon the request of the City, shall execute and deliver to the City all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries shall pay over or deliver to the City all moneys or securities held by them pursuant to the Resolution which are not required for the payment of principal or Redemption Price, if applicable, of and interest on Bonds. If the City shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of any outstanding 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 Resolution, such Bonds shall cease to be entitled to any lien, benefit or security under the Resolution, and all covenants, agreements and obligations of the City to the Holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

2. 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 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 Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in subsection 1 of this Section (a) upon compliance with the provisions of subsection 3 of this Section or (b) if the City shall have satisfied all of the conditions precedent to such Bonds being so deemed to have been paid set forth in the Supplemental Resolution authorizing the Series of which such Bonds are a part.

3. Subject to the provisions of paragraph 4 through paragraph 8 of this Section, any Outstanding Bonds 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 (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the City shall have given to the Trustee instructions accepted in writing by the Trustee to give as provided in Article IV notice of redemption of such Bonds (other than Bonds which have been purchased by the Trustee at the direction of the City or purchased or otherwise acquired by the City and delivered to the Trustee as hereinafter provided prior to the giving of such notice of redemption) on said date, (b) there shall have been deposited with the Trustee either moneys (including moneys withdrawn and deposited pursuant to paragraph 4 of Section 507 and paragraph 5 of Section 508) in an amount which shall be sufficient, or Defeasance Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to redemption or to be paid at maturity within the next succeeding 60 days, the City shall have given the Trustee in form satisfactory to it instructions to give, as soon as practicable, by first-class mail, postage prepaid, a notice to the Holders of such Bonds that the deposit required by (b) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section 1201 and stating such maturity or redemption date upon which moneys are expected, subject to the provisions of paragraph 8 of this Section 1201, to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds (other than Bonds which have been purchased by the Trustee at the direction of the City or purchased or otherwise acquired by the City and delivered to the Trustee as hereinafter provided prior to the giving of the notice of redemption referred to in clause (a) hereof). Any notice given pursuant to the preceding sentence with respect to Bonds which constitute less than all of the Outstanding Bonds of any maturity within a Series shall specify the letter and number or other distinguishing mark of each such Bond. The Trustee shall, as and to the extent necessary, apply moneys held by it pursuant to this

Section 1201 to the retirement of said Bonds in amounts equal to the unsatisfied balances (determined as provided in Section 511) of any Sinking Fund Installments with respect to such Bonds, all in the manner provided in the Resolution. The Trustee shall, if so directed by the City (i) prior to the maturity date of Bonds deemed to have been paid in accordance with this Section 1201 which are not to be redeemed prior to their maturity date or (ii) prior to the giving of the notice of redemption referred to in clause (a) above with respect to any Bonds deemed to have been paid in accordance with this Section 1201 which are to be redeemed on any date prior to their maturity, apply moneys deposited with the Trustee in respect of such Bonds and redeem or sell Defeasance Securities so deposited with the Trustee and apply the proceeds thereof to the purchase of such Bonds and the Trustee shall immediately thereafter cancel all such Bonds so purchased; provided, however, that the moneys and Defeasance Securities remaining on deposit with the Trustee after the purchase and cancellation of such Bonds shall be sufficient to pay when due the Principal Installment or Redemption Price, if applicable, and interest due or to become due on all Bonds, in respect of which such moneys and Defeasance Securities are being held by the Trustee on or prior to the redemption date or maturity date thereof, as the case may be. If, at any time (i) prior to the maturity date of Bonds deemed to have been paid in accordance with Section 1201 which are not to be redeemed prior to their maturity date or (ii) prior to the giving of the notice of redemption referred to in clause (a) with respect to any Bonds deemed to have been paid in accordance with this Section 1201 which are to be redeemed on any date prior to their maturity, the City shall purchase or otherwise acquire any such Bonds and deliver such Bonds to the Trustee prior to their maturity date or redemption date, as the case may be, the Trustee shall immediately cancel all such Bonds so delivered; such delivery of Bonds to the Trustee shall be accompanied by directions from the City to the Trustee as to the manner in which such Bonds are to be applied against the obligation of the Trustee to pay or redeem Bonds deemed paid in accordance with this Section 1201. The directions given by the City to the Trustee referred to in the preceding sentences shall also specify the portion, if any, of such Bonds so purchased or delivered and cancelled to be applied against the obligation of the Trustee to pay Bonds deemed paid in accordance with this Section 1201 upon their maturity date or dates and the portion, if any, of such Bonds so purchased or delivered and cancelled to be applied against the obligation of the Trustee to redeem Bonds deemed paid in accordance with this Section 1201 on any date or dates prior to their maturity. In the event that on any date as a result of any purchases, acquisitions and cancellations of Bonds as provided in this Section 1201 the total amount of moneys and Defeasance Securities remaining on deposit with the Trustee under this Section 1201 is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of the remaining Bonds in order to satisfy subclause (b) of this paragraph 2 of Section 1201, the Trustee shall, if requested by the City, pay the amount of such excess to the City free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under this Resolution. Except as otherwise provided in this paragraph 3 of Section 1201 and in paragraph 4 through paragraph 8 of this Section 1201, neither Defeasance Securities nor moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, (A) to the extent such cash will not be required at any time for such purpose, shall be paid over to the City as received by the Trustee, free and clear of any trust, lien or pledge securing said Bonds or otherwise existing under the Resolution, and (B) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Bonds on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the City, as received by the Trustee, free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under the Resolution.

4. For purposes of determining whether Variable Rate Bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of moneys, or Defeasance Securities and moneys, if any, in accordance with the second sentence of paragraph 3 of this

Section 1201, the interest to come due on such Variable Rate Bonds on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the maximum rate permitted by the terms thereof; provided, however, that if on any date, as a result of such Variable Rate Bonds having borne interest at less than such maximum rate for any period, the total amount of moneys and Defeasance Securities on deposit with the Trustee for the payment of interest on such Variable Rate Bonds is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of such Variable Rate Bonds in order to satisfy the second sentence of paragraph 3 of this Section 1201, the Trustee shall, if requested, by the City, pay the amount of such excess to the City free and clear of any trust, lien, pledge or assignment securing the Bonds or otherwise existing under the Resolution.

5. Option Bonds shall be deemed to have been paid in accordance with the second sentence of paragraph 3 of this Section 1201 only if, in addition to satisfying the requirements of clauses (a) and (c) of such sentence, there shall have been deposited with the Trustee moneys (including moneys withdrawn and deposited pursuant to paragraph 4 of Section 507 and paragraph 5 of Section 508) in an amount which shall be sufficient to pay when due the maximum amount of principal of and premium, if any, and interest on such Bonds which could become payable to the Holders of such Bonds upon the exercise of any options provided to the Holders of such Bonds; provided, however, that if, at the time a deposit is made with the Trustee pursuant to paragraph 2 of this Section 1201, the options originally exercisable by the Holder of an Option Bond are no longer exercisable, such Bond shall not be considered an Option Bond for purposes of this paragraph 5. If any portion of the moneys deposited with the Trustee for the payment of the principal of and premium, if any, and interest on Option Bonds is not required for such purpose the Trustee shall, if requested by the City, pay the amount of such excess to the City free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under the Resolution.

6. Defeasance Securities described in clause (f) of the definition thereof may be included in the Defeasance Securities deposited with the Trustee in order to satisfy the requirements of clause (b) of paragraph 2 of Section 1201 only if the determination as to whether the moneys and Defeasance Securities to be deposited with the Trustee in order to satisfy the requirements of such clause (b) would be sufficient to pay when due either on the maturity date thereof or, in the case of any bonds to be redeemed prior to the maturity date thereof, on the redemption date or dates specified in any notice of redemption to be given by the Trustee or in the instructions to give a notice of redemption provided to the Trustee in accordance with paragraph 3 of Section 1201, the principal and Redemption Price, if applicable, and interest on the Bonds which will be deemed to have been paid as provided in paragraph 3 of Section 1201 is made both (i) on the assumption that the Defeasance Securities described in clause (f) were not redeemed at the option of the issuer prior to the maturity date thereof and (ii) on the assumptions that such Defeasance Securities would be redeemed by the issuer thereof at its option on each date on which such option could be exercised, that as of such date or dates interest ceased to accrue on such Defeasance Securities and that the proceeds of such redemption would not be reinvested by the Trustee.

7. In the event that after compliance with the provisions of paragraph 6 of Section 1201 the Defeasance Securities described in clause (f) of the definition thereof are included in the Defeasance Securities deposited with the Trustee in order to satisfy the requirements of clause (b) of paragraph 3 of Section 1201 and any such Defeasance Securities are actually redeemed by the issuer thereof prior to their maturity date, then the Trustee at the direction of the City, provided that the aggregate of the moneys and Defeasance Securities to be held by the Trustee, taking into account any changes in redemption dates or instructions to give notice of redemption given to the Trustee by the City in accordance with paragraph 8 of Section 1201, shall at all times be sufficient to satisfy the requirements of clause (b) of paragraph 3 of Section 1201, shall reinvest the proceeds of such redemption in Defeasance Securities.

8. In the event that after compliance with the provisions of paragraph 6 of Section 1201 the Defeasance Securities described in clause (f) of the definition thereof are included in the Defeasance Securities deposited with the Trustee in order to satisfy the requirements of clause (b) of

paragraph 3 of Section 1201, then any notice of redemption to be given by the Trustee and any set of instructions relating to a notice of redemption given to the Trustee may provide, at the option of the City, that any redemption date or dates in respect of all or any portion of the Bonds to be redeemed on such date or dates may at the option of the City be changed to any other permissible redemption date or dates and that redemption dates may be established for any Bonds deemed to have been paid in accordance with this Section 1201 upon their maturity date or dates at any time prior to the actual giving of any applicable notice of redemption in the event that all or any portion of any Defeasance Securities described in clause (f) of the definition thereof have been called for redemption pursuant to an irrevocable notice of redemption or have been redeemed by the issuer thereof prior to the maturity date thereof; no such change of redemption date or dates or establishment of redemption date or dates may be made unless taking into account such changed redemption date or dates or newly established redemption date or dates the moneys and Defeasance Securities on deposit with the Trustee including any Defeasance Securities deposited with the Trustee in connection with any reinvestment of redemption proceeds in accordance with paragraph 7 of Section 1201 pursuant to clause (b) of paragraph 3 of Section 1201 would be sufficient to pay when due the principal and Redemption Price, if applicable, and interest on all Bonds deemed to have been paid in accordance with paragraph 3 of Section 1201 which have not as yet been paid.

9. Anything in the Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any of the Bonds which remain unclaimed for six years after the date when such 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 Fiduciary at such date, or for six years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Bonds become due and payable, shall, at the written request of the City, be repaid by the Fiduciary to the City, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondholders shall look only to the City for the payment of such Bonds; provided, however, that before being required to make any such payment to the City, the Fiduciary shall, at the expense of the City, cause to be published at least twice, at an interval of not less than 7 days between publications, in an Authorized Newspaper, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the City.

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

**SECTION 1202. Evidence of Signatures of Bondholders and Ownership of Bonds.** 1. Any request, consent, revocation of consent or other instrument which the Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor and shall be signed or executed by such Bondholders 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 Bonds, shall be sufficient for any purpose of the Resolution (except as otherwise therein expressly provided) if made in the following manner, or in any other manner satisfactory to the Trustee, which may nevertheless in its discretion require further or other proof in cases where it deems the same desirable:

The fact and date of the execution by any Bondholder or such Bondholder'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 ownership of Bonds 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 owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by the City or any Fiduciary in accordance therewith.

**SECTION 1203. Moneys Held for Particular Bonds.** The amounts held by any Fiduciary for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Holders of the Bonds entitled thereto.

**SECTION 1204. Preservation and Inspection of Documents.** All documents received by any Fiduciary under the provisions of the Resolution shall be retained in its possession and shall be subject at all reasonable times to the inspection of the City, any other Fiduciary, and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

**SECTION 1205. Parties Interested Herein.** Nothing in the 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 Fiduciaries, each Qualified Hedging Contract Provider that has provided a Qualified Hedging Contract and the Holders of the Bonds any right, remedy or claim under or by reason of the Resolution or any covenant, condition or stipulation thereof; and all the covenants, stipulations, promises and agreements in the Resolution contained by and on behalf of the City shall be for the sole and exclusive benefit of the City, the Fiduciaries, each such Qualified Hedging Contract Provider and the Holders of the Bonds.

**SECTION 1206. No Recourse on the 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 Bonds.

**SECTION 1207. Publication of Notice; Suspension of Publication.** 1. Any publication to be made under the provisions of the 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 Resolution in the manner herein provided, then such publication in lieu thereof as shall be made with the approval of the Trustee shall constitute a sufficient publication of such notice.

**SECTION 1208. Action by Credit Enhancer When Action by Holders of the Bonds Required.** Except as otherwise provided in a Supplemental Resolution authorizing Bonds for which Credit Enhancement is being provided, if not in default in respect of any of its obligations with respect to Credit Enhancement for the Bonds of a Series, or a maturity within a Series, the Credit Enhancer for, and not the actual Holders of, the Bonds of a Series, or a maturity within a Series, for which such Credit Enhancement is being provided, shall be deemed to be the Holder of Bonds of any Series, or maturity within a Series, as to which it is the Credit Enhancer at all times for the purpose of (i) giving any approval or

consent to the effectiveness of any Supplemental Resolution or any amendment, change or modification of the Resolution as specified in Sections 1003, 1102, 1103 and 1104 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 Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto and (ii) giving any approval or consent, exercising any remedies or taking any other action in accordance with the provisions of Article VIII hereof.

**SECTION 1209. Severability of Invalid Provisions.** If any one or more of the covenants or agreements provided in the Resolution on the part of the City or any 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 Resolution.

**SECTION 1210. Holidays.** 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 Resolution, shall be a legal holiday or a day on which banking institutions in the city in which is located the principal office of the Trustee 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 Resolution, and no interest shall accrue for the period after such nominal date.

**SECTION 1211. Representations and Covenants Regarding the Pledge of the Resolution.** The City represents that, pursuant to the Act, the Resolution creates a valid and binding lien on the Trust Estate, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth herein, for the benefit of the Holders of the Bonds, as security for the payment of the Bonds, to the extent set forth herein, enforceable in accordance with the terms hereof.

The City has not heretofore made or granted a pledge or assignment of, lien on or security interest in the Trust Estate that ranks on a parity with or prior to the lien and pledge made or granted in the Resolution. The City shall not hereafter make or grant a pledge or assignment of, lien on or security interest in such Trust Estate that ranks prior to or on a parity with the lien and pledge made or granted in the Resolution, except as expressly permitted thereby.

**SECTION 1212. Repeal of Inconsistent Resolutions.** Any resolution of the City, and any part of any resolution, inconsistent with the Resolution is hereby repealed to the extent of such inconsistency.

**ARTICLE XIII**

**EFFECTIVE DATE; DEBT SERVICE RESERVE ACCOUNT UNDER ORIGINAL RESOLUTION**

**SECTION 1301. Effective Date.** This Amended and Restated Utilities System Revenue Bond Resolution shall become effective on the Effective Date, upon the satisfaction of the conditions to its effectiveness set forth in Articles X and XI of Original Resolution.



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**APPENDIX C-2**

**SPRINGING AMENDMENTS TO THE RESOLUTION**

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SUMMARY OF 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 \_\_\_\_\_, 2017 contains amendments that will only become effective upon receipt of the written consent of holders of not less than a majority in principal amount of the Bonds then outstanding (the owners of the 2017 Series A Bonds, by acceptance of the 2017 Series A Bonds will be deemed to have expressly and irrevocably consented to these amendments in writing) and upon the consent of the Trustee and to the extent required by the terms of any resolution or ordinance or agreement applicable thereto, consent of certain Credit Enhancers, liquidity providers or swap counterparties. The following excerpts reflect all of the amendments contained in the Second Amended and Restated Utilities System Bond Resolution (with underlining reflecting inserts and strikethroughs reflecting deletions from the original text and provisions not reflected herein are not being amended and remain identical to what is included in the Resolution):

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

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

**Credit Obligation** shall mean any obligation of the City to make payments out of Revenues for property, services or commodities whether or not the same are made available, furnished or received, that are not Operation and Maintenance Expenses.

**Credit Enhancement** shall mean, with respect to any Bonds of a Series, the issuance of an insurance policy, letter of credit, surety bond or any other similar obligation, whereby the issuer thereof becomes unconditionally or conditionally obligated to acquire or pay when due, to the extent not paid by the City or otherwise, such Bonds or the principal of and interest ~~on such Bonds thereon, which may include credit enhancement and/or liquidity enhancement.~~

**Debt Service** for any period shall mean, as of any date of calculation (a) with respect to any Series of Bonds, an amount equal to the sum of (i) interest accruing during such period on Bonds of such Series, except to the extent that such interest is to be paid from deposits into the Debt Service Account in the Debt Service Fund made from the proceeds of Bonds, Subordinated Indebtedness or other evidences of indebtedness of the City (including amounts, if any, transferred thereto from the Construction Fund) and (ii) that portion of each Principal Installment for such Series which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such Series (or, (x) in the case of Bonds other than Parity Reimbursement Obligations, if (1) there shall be no such preceding Principal Installment due date or (2) such preceding Principal Installment due date is more than one year prior to the due date of such Principal Installment, then, from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Bonds of such Series, whichever date is later, and (y) in the case of Parity Reimbursement Obligations, in accordance with the terms thereof and the Supplemental Resolution authorizing such Parity Reimbursement Obligations), except to the extent that such Principal Installment is paid or to be paid from the proceeds of Bonds, Subordinated Indebtedness or other evidences of indebtedness of the City and (b) with respect to each Parity Hedging Contract Obligation, an amount equal to the sum of all net amounts owed thereunder by the City during such period, excluding, however, payment obligations taken into account below in the calculation of Debt Service on Bonds, and excluding Hedge Charges. Such interest and Principal Installments for such Series of Bonds shall be calculated on the assumption that (x) no Bonds (except for Option Bonds actually tendered for payment prior to the stated maturity thereof and paid, or to be paid, from Revenues) of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof, (y) the principal amount of Option Bonds tendered for payment before the stated maturity thereof and paid, or to be paid, from Revenues, shall be deemed to accrue on the date required to be paid pursuant to such tender and (z) the principal and interest portions of the Accreted Value of Capital Appreciation Bonds or the Appreciated Value of Deferred Income Bonds shall be included in the calculation of Debt Service at the times and in the manner provided in subsection 1 of Section 208; provided, however, that if the calculation of the Debt Service Reserve Requirement for any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund takes into account Debt Service, then, for purposes of such calculation, Debt Service shall be calculated only with respect to the Bonds of the Series secured thereby. If the City has, in connection with any Series of 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 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

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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 Bonds, Parity Commercial Paper Notes or Parity Medium-Term Notes, entered into a Qualified Hedging Contract which provides that, in respect of a notional amount equal to or less than the Outstanding principal amount of the Variable Rate Bonds, Parity Commercial Paper Notes or Parity Medium-Term Notes, the City is to pay to a Qualified Hedging Contract Provider an amount determined based upon a fixed rate of interest and the Qualified Hedging Contract Provider is to pay to the City an amount determined based upon a variable rate of interest equal or comparable to the rate at which such Variable Rate Bonds, Parity Commercial Paper Notes or Parity Medium-Term Notes bear interest, it will be assumed that such Variable Rate Bonds, Parity Commercial Paper Notes or Parity Medium-Term Notes or portion 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. In calculating Debt Service with respect to Subsidy Bonds, the amount of Subsidy Payments expected to be received with respect to Subsidy Bonds on each respective interest payment date shall be netted against the amount of interest payable on such interest payment date; provided, however, that if for any reason, the City is no longer entitled to, or will not, receive Subsidy Payments on any Outstanding Subsidy Bond (other than as a result of a non-recurring reduction due to an offset of an amount due or alleged to be due from the City to the federal government or any agency, branch or bureau thereof), for purposes of this definition, the interest on such Subsidy Bonds shall be determined without regard to such Subsidy Payment. Payments scheduled on the first day of a Fiscal Year may be deemed paid as of the last day of the prior Fiscal Year.

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

(a) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are ~~unconditionally~~ guaranteed by, the United States of America including, but not limited to, stripped interest components of obligations issued by the Resolution Funding Corporation (REFCORP) and non-callable, non-pre-payable debt obligations of the United States Agency for International Development (US AID), which pay principal and interest at least three (3) Business Days prior to any respective escrow requirement dates, and any certificates or any other evidences of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this clause (a), in any such case, which shall not be subject to redemption prior to their maturity other than at the option of the holder thereof or as to which an irrevocable notice of redemption of such securities on a specified redemption date has been given and such securities are not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof,

(b) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (A) which are (x) not callable prior to maturity or (y) as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (B) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (a) hereof which fund may be applied only to the payment of such

principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (C) as to which the principal of and interest on the bonds and obligations of the character described in clause (a) hereof which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (b) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (A) of this clause (b), as appropriate, and any certificates or any other evidences of an ownership interest in obligations or specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this clause (b);

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

(d) ~~bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by a nationally recognized rating agency in its highest rating category, and by at least one other nationally recognized rating agency in either of its two highest rating categories, for comparable types of debt obligations so long as such securities evidence ownership of the right to payments of principal and/or interest on obligations described in clauses (a) and (b) hereof or obligations described in the foregoing clause (obligations of any agency, instrumentality, or federally-owned corporation of the United States of America created by an act of congress (including, but not limited to, the Federal Home Loan Banks, Freddie Mac, Federal Farm Credit Banks Funding Corporation, Fannie Mae, Resolution Funding Corporation, and the Tennessee Valley Authority), including any certificates or any other evidences of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this clause (a), in any such case, which shall not be subject to redemption prior to their maturity other than at the option of the holder thereof or as to which an irrevocable notice of redemption of such obligations securities on a specified redemption date has been given and such obligations securities are not otherwise subject to redemption prior to such specified date their maturity other than at the option of the holder thereof,~~

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

obligations described in clause (a) or clause (b) hereof to the extent not insured by the Federal Deposit Insurance Corporation, and

(f) upon compliance with the provisions of subsection 6 of Section 1201, such securities (I) as are described in clause (a) of this definition and (II) as are described in clause (d) hereof so long as such securities evidence ownership of the right to payments of principal and/or interest on obligations described in clause (a) hereof, in each case, which are subject to redemption prior to maturity at the option of the issuer thereof on a specified date or dates.

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

**Depository** shall mean any bank or trust company organized under the laws of any state of the United States or any national banking association selected by the City as a depository of moneys and securities held under the provisions of the Resolution, and may include the Trustee or ~~the~~ any Co-Trustee.

**Fiduciary or Fiduciaries** shall mean the Trustee, the Co-Trustee, the Bond Registrar, the Paying Agents, ~~the Depositories,~~ or any or all of them, as may be appropriate.

**Independent Consultants** means such firm or firms, (1) consisting of or employing, registered professional engineers, architects, rate consultants, or other professionals, (2) having a favorable reputation for the design, maintenance and operation of facilities such as the System and (3) engaged by the City to perform the tasks set forth to be performed by such Independent Consultant by the provisions of this Resolution, and shall include, where applicable, the Consulting Engineers.

**Maximum Aggregate Debt Service** means, as of any particular date of calculation, the highest Adjusted Aggregate Debt Service for the then current or any future Fiscal Year, as the case may be, with respect to the particular Series of Bonds, or all Bonds, or Subordinate Debt, as the case may be.

**Net Revenues** for any period shall mean the Revenues during such period plus (x) the amounts, if any, paid or budgeted to be paid, as applicable, from the Rate Stabilization Fund into the Revenue Fund during such period (excluding from (x), for the purpose of avoiding double counting, amounts already included in the Revenues for such period representing interest earnings transferred from the Rate Stabilization Fund to the Revenue Fund pursuant to Section 603) and minus (y) the sum of (a) Operation and Maintenance Expenses during such period and (b) the amounts, if any, paid from the Revenue Fund into the Rate Stabilization Fund during such period.

**Operation and Maintenance Expenses** shall mean all expenses incurred (or as applicable, budgeted or estimated to be incurred) in connection with the operation ~~and~~ and maintenance and ordinary current repairs of the System including, without limiting the generality of the foregoing, all operating and maintenance expenses included in the Uniform System of Accounts exclusive of

interest, depreciation and amortization charges—all costs (including administrative expenses) relating to the System, the purchase of power and water, and the purchase of water or wastewater collection, distribution or treatment services (in each case to the extent the same may be treated as an operating cost under generally accepted accounting principles (GAAP)) and insurance premiums and charges for the accumulation of appropriate reserves for self-insurance, not annually recurrent but which are reasonably expected to be incurred on a periodic basis in accordance with generally accepted accounting principles (GAAP), consistently applied. The Operation and Maintenance Expenses shall include ~~all Credit Obligations except as provided in Section 206 hereof,~~ among other items, payments required to be made to any entity, under power purchase agreements, wastewater capacity or water purchase agreements, including, without limitation, take and pay or take or pay power or water purchase agreements or similar power or water purchase arrangements and related price hedging agreements. Operation and Maintenance Expenses shall, to the extent not included in the preceding sentence, include (i) all Credit Obligations and liquidity support, and (ii) all fees, expenses, indemnification or other obligations to any provider of Credit Enhancement and related Parity Reimbursement Obligation unless otherwise provided in the agreements between the City and such provider at the time that the Credit Enhancement is obtained; provided, however, such amounts shall not include interest on any loans or advances with respect to such Credit Enhancement or Parity Reimbursement Obligation. The Operation and Maintenance Expenses shall not include (i) any reserve for renewals and replacements, extraordinary repairs or any allowance for depreciation or amortization, (ii) the payment of any principal of, premium, if any, and interest on the Bonds and any other notes, bonds and similar obligations of the City, (iii) Parity Hedging Contract Obligations or Hedge Charges, (iv) payments made by the City under leases that are capitalized in accordance with generally accepted accounting principles (GAAP), and (v) the costs of issuance of Bonds paid with proceeds of such Bonds.

**Original Resolution** shall mean the Amended and Restated Utilities System Revenue Bond Resolution adopted by the City on June 6, 1983, 30, 2003, as amended and supplemented prior to the adoption of this Second Amended and Restated Utilities System Revenue Bond Resolution.

**Outstanding**, when used with reference to Bonds, shall mean, as of any date of calculation, Bonds theretofore or thereupon being authenticated and delivered under the Resolution except:

- (i) Bonds (or portions of Bonds) cancelled by the Trustee at or prior to such date;
- (ii) Bonds (or portions of 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 ~~under the Resolution in accordance with Section 1201~~ and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given as provided in Article IV or in the Supplemental Resolution authorizing the Series of which such Bonds are a part or provision satisfactory to the Trustee shall have been made for the giving of such notice;

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Article III or Section 406 or 1106 unless proof satisfactory to the Trustee is presented that any such Bonds are held by a bona fide purchaser in due course; and

(iv) Bonds (or portions thereof) deemed to have been paid as provided in paragraph 2 of Section 1201 or in the Supplemental Resolution authorizing the Series of which such Bonds are a part.

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

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

**Resolution or Bond Resolution** shall mean this Second Amended and Restated Utilities System Revenue Bond Resolution as from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms hereof.

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

Contract Provider pursuant to a Parity Hedging Contract Obligation that are deposited into the Debt Service Account in the Debt Service Fund, (ii) Subsidy Payments, and (iii) grants from federal or state of Florida which by its terms are restricted for projects and not available to pay debt service on the Bonds or Parity Hedging Contract Obligations.

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

**Subsidy Bonds** shall mean any Bonds for which the City receives direct Subsidy Payments in an amount equal to, and/or measured by, all or a portion of the interest paid on such Bonds.

**Subsidy Payments** shall mean payments received by the City or a Paying Agent on behalf of the City from the United States Treasury or the Internal Revenue Service with respect to Subsidy Bonds pursuant to Section 54AA or Section 6431 of the Internal Revenue Code of 1986, as amended (as such sections were added by Section 1531 of the American Recovery and Reinvestment Act of 2009) as such sections may be expanded or modified from time to time, and any other similar payments made by the federal government of the United States or any agency, branch or bureau thereof to subsidize interest payable by the City on Subsidy Bonds pursuant to said sections or any other similar provisions of this Code or other authorizations with respect to Subsidy Bonds.

**Trust Estate** shall mean (i) the proceeds of the sale of the Bonds, (ii) the Revenues, (iii) the Subsidy Payments, and ~~(iiiiv)~~ all Funds established by the Resolution (other than the Debt Service Reserve Account in the Debt Service Reserve Fund and any fund which may be established pursuant to paragraph 2 of Section 502 hereof), including the investments and income, if any, thereof.

**Uniform System of Accounts** shall mean, ~~as to the electric utility portion of the System, that system of accounting principles at the time prescribed by the Federal Energy Regulatory Commission, or its successor for such purpose, for Class A and B electric utilities; and as to the other utility portions of the System, shall mean those same principles as appropriately modified for such the funds and accounts established by the City in accordance with generally accepted accounting principles (GAAP) for Florida municipal utilities.~~

**Variable Rate Hedging Obligation** shall mean a Qualified Hedging Contract, the City's payment obligation under which are determined on the basis of a variable rate index.

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**SECTION 102. Authority for this Resolution.** This Second Amended and Restated Utilities System Revenue Bond Resolution is supplemental to the Original Resolution, and constitutes a "Supplemental Resolution" within the meaning of the Original Resolution.

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**SECTION 201. Authorization of Bonds.** 1. The Resolution authorizes Bonds of the City to be designated as "Utilities System Revenue Bonds." The aggregate principal amount of the Bonds which may be executed, authenticated and delivered under the Resolution is not limited except as may hereafter be provided in the Resolution or in any Supplemental Resolution or as may be limited by law.

2. The Bonds may, if and when authorized by the City pursuant to one or more Supplemental Resolutions, be issued in one or more Series, and the designation thereof, in addition to the name "Utilities System Revenue Bonds", shall include such further appropriate particular designation added to or incorporated in such title for the Bonds of any particular Series as the City may determine. Each Bond shall bear upon its face the designation so determined for the Series to which it belongs.

3. Nothing in the Resolution shall be deemed to preclude or restrict the consolidation into a single Series for purposes of issuance and sale of Bonds otherwise permitted by the 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 202, Section 203 or Section 204, as the case may be, the Bonds otherwise permitted by the Resolution to be issued as a separate Series shall be considered separately as if such 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 Resolution notwithstanding any other provision of the Resolution.

4. The Supplemental Resolution authorizing Subsidy Bonds shall expressly designate such Bonds as Subsidy Bonds.

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**SECTION 202. General Provisions for Issuance of Bonds.** 1. Except in the case of Parity Reimbursement Obligations, Parity Commercial Paper Notes and Parity Medium-Term Notes (the issuance of which shall be governed by the provisions of Sections 207, 210 and 211, respectively), all (but not less than all) the Bonds of each Series shall be executed by the City for issuance under the Resolution and delivered to the Trustee and thereupon shall be authenticated by the Trustee and by it delivered to the City or upon its order, but only upon the receipt by the Trustee (with copies of all documents to the Co-Trustee, if any) of:

(1) 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 Resolution creates the valid pledge which it purports to create of, the Trust Estate and, if such Series of Bonds shall be an Additionally Secured Series, the separate subaccount in the Debt Service Reserve Account in the Debt Service Fund established for the benefit of such 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; and (iii) the Bonds of such Series are valid and binding obligations of the City as provided in the Resolution and entitled to the benefits of the Resolution and of the Act as amended to the date of such Opinion, and such Bonds have been duly and validly

authorized and issued in accordance with law, including the Act as amended to the date of such Opinion, and in accordance with the Resolution. 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 Resolution over the rights of other persons in the Trust Estate and, if applicable, such separate subaccount in the Debt Service Reserve Account in the Debt Service Fund and such other customarily accepted exceptions and reliance provisions. The opinion may be limited to this Resolution, as amended, and the Supplemental Resolution applicable to the proposed Bonds;

(2) A written order as to the delivery of such Bonds, signed by an Authorized Officer of the City;

(3) A copy of the Supplemental Resolution authorizing such Bonds, certified by an Authorized Officer of the City, which shall specify such terms and conditions relative to the Bonds of such Series, and such other matters relative thereto, as the City may determine;

(4) The amount, if any, required by the Supplemental Resolution to be deposited in the Debt Service Account in the Debt Service Fund for the payment of interest on Bonds and, if such Series shall be an Additionally Secured Series, the amount, if any, necessary for deposit in the separate subaccount in the Debt Service Reserve Account in the Debt Service Fund designated therefor so that the amount on deposit in such subaccount shall equal the Debt Service Reserve Requirement related thereto calculated immediately after the authentication and delivery of such Series of Additional Obligations; provided, however, that a Supplemental Resolution establishing a separate subaccount in the Debt Service Reserve Account in the Debt Service Fund may provide that, in lieu of maintaining all or a portion of the moneys or investments required to be maintained in such separate subaccount in the Debt Service Reserve Account in the Debt Service Fund, there may be credited to said subaccount at any time an irrevocable surety bond, an insurance policy, a letter of credit or any other similar obligation, or any combination thereof, of the type specified therein, or such amount may be deposited thereafter from Revenues or otherwise, in such manner as may be specified therein;

(5) The amount, if any, required by the Supplemental Resolution to be deposited in the Rate Stabilization Fund;

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

(7) All amounts not deposited in other Funds under the Resolution for deposit in the Construction Fund or as otherwise provided under the Supplemental Resolution;

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(8) Except in the case of any Series of Refunding Bonds, the City shall have filed with the Trustee a certificate of an Authorized Officer stating (i) that the Net Revenues of the System in any twelve consecutive months out of the most recent eighteen months preceding the sale of Bonds, as determined from the financial statements of the System, were not less than one hundred twenty-five percent (125%) of the Aggregate Debt Service over such twelve-month period in respect of the then Outstanding 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:

(9) Except in the case of any Series of Refunding Bonds, a certificate of an Authorized Officer of the City stating that the Net Revenues for each of the full Fiscal Years in the period specified in the next sentence, as such Net Revenues are estimated by the City in accordance with Section 205 hereof, shall be at least equal to 1.40 times the Adjusted Aggregate Debt Service for each such Fiscal Year, as estimated by the City in accordance with Section 205 hereof. The period to be covered by such certificate shall be the period beginning with the Fiscal Year in which the Series of Bonds is authenticated and delivered and ending with the later of (a) the fifth full Fiscal Year after such date of authentication and delivery 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 deposits made from Bond proceeds in the Debt Service Account in the Debt Service Fund (including amounts, if any, to be transferred thereto from the Construction Fund);

(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 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 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 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 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) (A) and (ii) (B) of this paragraph, there shall be taken into account only dwellings, buildings or other structures in existence on the date of such projections.

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

(d) The amount, if any, required to be deposited from Revenues into the Debt Service Reserve Account pursuant to Section 505 hereof 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 twenty-five percent (125%) of the Maximum Aggregate Debt Service referred to in paragraph (c) above for the Applicable Bond Year; or

~~(9)~~ (10) The City may deliver in the case of each Series of Bonds, any portion of the proceeds of which is to be deposited in the Debt Service Account in the Debt Service Fund, a certificate of an Authorized Officer of the City setting forth the then estimated application of such proceeds so deposited for the payment of interest on any particular Series of Bonds, whether or not such Series of Bonds is then Outstanding, or then being issued, or to be issued thereafter; and

~~(10)~~ (11) Such further documents, moneys and securities as are required by the provisions of Section 204 or Article X or any Supplemental Resolution adopted pursuant to Article X.

2. All the Bonds of each Series of like maturity shall be identical in all respects, except as to interest rate, denominations, numbers and letters. After the original issuance of Bonds of any Series other than Parity Reimbursement Obligations, Parity Commercial Paper Notes and Parity Medium-Term Notes, no Bonds of such Series shall be issued except in lieu of or in substitution for other Bonds of such Series pursuant to Article III or Section 406 or Section 1106.

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**SECTION 204. 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 Section 202, 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 Section 1201 of 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 paragraph 4 of Section 507 and paragraph 5 of Section 508) 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 or Depositories in a separate account irrevocably ~~in trust~~ held 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 paragraph 3 of Section 1201, which Defeasance Securities and moneys shall be held ~~in trust~~ and used only as provided in said paragraph 3 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.

3. 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.

4. The City may issue at any time and from time to time Refunding Bonds for the purpose of refunding any Series of Bonds, or any Bonds within a Series, or any maturity or portion of a maturity of Bonds within a Series, or for the purpose of refunding any Subordinate Indebtedness by complying with the requirements of Section 203 herein. In addition to, and notwithstanding the foregoing, the City may issue at any time and from time to time Refunding Bonds for the purpose of refunding any Series of Bonds, or any Bonds within a Series, or any portion of a maturity of Bonds within a Series or Sinking Fund Installment, without the necessity of complying with the requirements contained in subsection (8) of Section 202, provided that either (x) the Debt Service with respect to such Refunding Bonds in each Fiscal Year from and after the issuance thereof shall be equal to or less than the Debt Service in each such Fiscal Year with respect to the Bonds being refunded or (y) the Maximum Aggregate Debt Service of the Bonds is not increased as a result of such Refunding Bonds. In addition, at or prior to the issuance of such Refunding Bonds pursuant to the preceding sentence, there shall be filed with the Governing Body of the City, an opinion of Bond Counsel, given in reliance on factual and financial certificates, to the effect that upon the deposit of proceeds from the sale of such Refunding Bonds, together with such other legally available funds, in irrevocable escrow for the payment of the Bonds to be refunded, such Bonds shall not be deemed Outstanding for purposes of this Resolution.

**SECTION 205. 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 (98) of ~~paragraph 1 of Section 202 hereof or Section 206 hereof~~, the City may base its estimate upon such factors as it shall consider reasonable.

~~2. In estimating the Adjusted Aggregate Debt Service for each of the Fiscal Years covered by any certificate required to be delivered by it pursuant to clause (9) of paragraph 1 of Section 202 hereof or Section 206 hereof, the City shall include the Adjusted Aggregate Debt Service on all Bonds estimated to be Outstanding during each such Fiscal Year. With respect to (a) any Bonds which are not Outstanding on the date such certificate is delivered but which are projected to be issued during the period covered by such certificate, and (b) any Variable Rate Bonds Outstanding on the date such certificate is delivered, the City shall estimate the Debt Service on such Bonds upon such assumptions as the City shall consider reasonable and set forth in such certificate, including assumptions with respect to the interest rate or rates to be borne by such Bonds and the amounts and due dates of the Principal Installments for such Bonds; provided, however, that the interest rate or rates assumed to be borne by any Variable Rate Bonds shall not be less than the interest rate borne by such Variable Rate Bonds at the time that the Authorized Officer of the City delivers such certificate.~~

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**SECTION 206. Reserved.Credit Obligations.** Payments owed by the City with respect to any Credit Obligation shall constitute Operation and Maintenance Expenses only if at the time the City enters into the contract relating to such Credit Obligation the City shall file with the Trustee a certificate of an Authorized Officer of the City stating that, assuming such payments are made as Operation and Maintenance Expenses from the Revenue Fund, the Net Revenues for each of the full Fiscal Years in the period specified in the next sentence, as such Net Revenues are

estimated by the City in accordance with Section 205 hereof, shall be at least equal to 1.25 times the Aggregate Debt Service for each such Fiscal Year, as estimated by the City in accordance with Section 205 hereof. The period to be covered by such certificate shall be the period beginning with the Fiscal year in which the contract relating to the Credit Obligation becomes effective and ending with the later of (a) the fifth full Fiscal Year after such effective date 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 deposits made from Bond proceeds in the Debt Service Account in the Debt Service Fund (including amounts, if any, to be transferred thereto from the Construction Fund).

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**SECTION 207. Reimbursement Obligations.** One or more Series of Reimbursement Obligations may be issued concurrently with the issuance of the Bonds of a Series authorized pursuant to the provisions of Section 203 or 204 hereof for which Credit Enhancement ~~or liquidity support~~ is being provided with respect to such Bonds (or a maturity or maturities or interest rate within a maturity thereof) by a third-party. Such Reimbursement Obligations shall be issued or incurred for the purpose of evidencing the City's obligation to repay any advances or loans made to, or on behalf of, the City in connection with such Credit Enhancement ~~or liquidity support~~; provided, however, that the stated maximum principal amount of any such Series of Reimbursement Obligations shall not exceed the aggregate principal amount of the Bonds with respect to which such Credit Enhancement ~~or liquidity support~~ is being provided, and such number of days' interest thereon as the City shall determine prior to the issuance thereof, but not in excess of 366 days' interest thereon, computed at the maximum interest rate applicable thereto; ~~and provided, further, that principal amortization requirements shall be equal to the amortization requirements of the related Bonds, without acceleration and other amounts owing thereunder.~~ Any Reimbursement Obligation, which may include interest calculated at a rate higher than the interest rate on the related Bonds, may be secured by a pledge and assignment of the Trust Estate on a parity with the pledge and assignment created by paragraph 1 of Section 501 to secure the Bonds (a "Parity Reimbursement Obligation"), ~~but only to the extent principal amortization requirements with respect to such reimbursement are equal to the amortization requirements for such related Bonds, without acceleration,~~ or may be secured by a pledge and assignment of the Subordinated Indebtedness Fund which pledge and assignment shall be subordinate in all respects to the pledge of the Trust Estate created by the Resolution in favor of the Bonds and Parity Hedging Contract Obligations but on a parity with the pledge and lien securing Subordinated Indebtedness (a "Subordinated Reimbursement Obligation"), as determined by the City. ~~Parity Reimbursement Obligations shall not include any payments of any fees, expenses, indemnification or other obligations to any provider of Credit Enhancement, or any payments pursuant to term loan or other principal amortization requirements in reimbursement of any such advance that are more accelerated than the amortization requirements on such related Bonds, which payments shall be Subordinated Reimbursement Obligations at the time the Credit Enhancement is obtained.~~

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**SECTION 208. Special Provisions Relating to Capital Appreciation Bonds, Deferred Income Bonds and Parity Reimbursement Obligations.** 1. The principal and interest portions of the Accreted Value of Capital Appreciation Bonds or the Appreciated Value of Deferred Income 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 Principal Installments made under the definitions of Debt Service, Accrued Aggregate Debt Service, Adjusted Aggregate Debt Service and Aggregate 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 Bond is redeemed prior to maturity, or (ii) receiving payment of a Capital Appreciation Bond if the principal of all Bonds is declared immediately due and payable following an Event of Default, as provided in Section 801 of the Resolution or (iii) computing the principal amount of Bonds held by the Holder of a Capital Appreciation Bond in giving to the City or the Trustee any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, the principal amount of a Capital Appreciation Bond shall be deemed to be its then current Accreted Value.

3. For the purposes of (i) receiving payment of the Redemption Price if a Deferred Income Bond is redeemed prior to maturity, or (ii) receiving payment of a Deferred Income Bond if the principal of all Bonds is declared immediately due and payable following an Event of Default, as provided in Section 801 of the Resolution or (iii) computing the principal amount of Bonds held by the Holder of a Deferred Income Bond in giving to the City or the Trustee any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, the principal amount of a Deferred Income Bond shall be deemed to be its then current Appreciated Value.

4. Except as otherwise provided in a Supplemental Resolution authorizing a Series of Parity Reimbursement Obligations, for the purposes of (i) receiving payment of a Parity Reimbursement Obligation, whether at maturity, upon redemption, or if the principal of all Bonds is ~~declared~~ deemed immediately due and payable following an Event of Default, as provided in Section 801 of the Resolution, or (ii) computing the principal amount of Bonds held by the Holder of a Parity Reimbursement Obligation in giving to the City or the Trustee any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, the principal amount of a Parity Reimbursement Obligation shall be deemed to be the actual principal amount that the City shall owe thereon, which shall equal the aggregate of the amounts advanced to, or on behalf of, the City in connection with the Bonds of the Series or maturity or interest rate within a maturity for which such Parity Reimbursement Obligation has been issued to evidence the City's obligation to repay any advances or loans made in respect of the Credit Enhancement ~~or liquidity support~~ provided for such Bonds, less any prior repayments thereof.

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**SECTION 303. Execution and Authentication.** 1. The 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; ~~provided however, that the signature of either the Mayor or the Clerk of the Commission shall be manual signatures, or in such other manner as may be required or permitted by law.~~ The 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 Bonds shall cease to be such officer before the Bonds so signed and sealed shall have been authenticated and delivered by the Trustee, such Bonds may, nevertheless, be authenticated and delivered as herein provided, and may be issued as if the persons who signed or sealed such Bonds had not ceased to hold such offices. Any 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 Bonds shall be duly authorized or hold the proper office in the City, although at the date borne by the Bonds of such Series such persons may not have been so authorized or have held such office.

2. The validation certificate appearing on the Bonds, if any, shall be signed by the facsimile signature of the Mayor and attested with the facsimile signature of the Clerk of the Commission of the City, or in such other manner as may be required or permitted by law, and the City may adopt and use for that purpose the facsimile signature of any person or persons who shall have been Mayor or Clerk of the Commission of the City at any time on or after the date borne by the Bonds of such Series, notwithstanding that such person may not have been such Mayor or Clerk of the Commission of the City at the date of any such Bond or may have ceased to be such Mayor or Clerk of the Commission of the City at the time when any such Bond shall be authenticated and delivered.

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

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**SECTION 309. Book Entry Bonds.** 1. Anything in the Resolution to the contrary notwithstanding, if and to the extent provided in the Supplemental Resolution authorizing the Bonds of the Series of which such Bond is a part, any Bond may be authorized and issued as a Book Entry Bond.

2. For all purposes of the Resolution, the Holder of a Book Entry Bond shall be the Securities Depository therefor and neither the City nor any Fiduciary shall have any responsibility or obligation to the beneficial owner of such Bond or to any direct or indirect participant in such Securities Depository. Without limiting the generality of the foregoing, neither the City nor any Fiduciary shall have any responsibility or obligation to any such participant or to the beneficial owner of a Book Entry 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 Bond, (ii) the delivery to any participant of the Securities Depository, the beneficial owner of such Bond or any other person, other than the Securities Depository, of any notice with respect to such Bond, including any notice of the redemption thereof, or (iii) the payment to any participant of the Securities Depository, the beneficial owner of such 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 Bond. The City and the Fiduciaries may treat the Securities Depository therefor as, and deem such Securities Depository to be, the absolute owner of a Book Entry Bond for all purposes whatsoever, including, but not limited to, (w) payment of the principal or Redemption Price of, and interest on, such Bond, (x) giving notices of redemption and of other matters with respect to such Bond, (y) registering transfers with respect to such Bond and (z) giving to the City or the Trustee any notice, consent, request or demand pursuant to the Resolution for any purpose whatsoever. The Paying Agents shall pay the principal or Redemption Price of, and interest on, a Book Entry 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 309 or in any Supplemental Resolution authorizing a Book Entry Bond, no person other than the Securities Depository shall receive a 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 Trustee and a Securities Depository, terminate the services of such Securities Depository with respect to the Book Entry 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 Bond or (ii) a continuation of the requirement that all of the Bonds issued as Book Entry 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 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 Resolution authorizing a Book Entry Bond.

4. Upon the termination of the services of a Securities Depository with respect to a Book Entry Bond pursuant to clause (ii) of the first sentence of subsection 3 of this Section 309, such Bond no longer shall be restricted to being registered in the registration books kept by the 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 Bond pursuant to clause (i) of the first sentence of subsection 3 of this Section 309, 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 Resolution upon reasonable and customary terms. If no such successor can be found within such period, such Book Entry Bond shall no longer be restricted to being registered in the registration books kept by the Bond Registrar in the name of a Securities Depository. In the event that a Book Entry Bond shall no longer be restricted to being registered in the registration books kept by the Bond Registrar in the name of a Securities Depository, (a) the City shall execute and the Trustee shall authenticate and deliver, upon presentation and surrender of the Book Entry Bond, 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 Bond and (b) the Trustee shall notify the Bond Registrar and the Paying Agents that such Bond is no longer restricted to being registered in the registration books kept by the Bond Registrar in the name of a Securities Depository.

5. Anything in the Resolution to the contrary notwithstanding, payment of the Redemption Price of a Book Entry 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 Resolution to the contrary notwithstanding, such Redemption Price may be paid without presentation and surrender to the Paying Agent of the Book Entry Bond, or portion thereof, called for redemption; provided, however, that payment of (a) the principal payable at maturity of a Book Entry Bond and (b) the Redemption Price of a Book Entry 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 Bond to the Paying Agent; ~~and provided, further, that no such Redemption Price shall be so payable without presentation and surrender unless such Book Entry Bond shall contain or have endorsed thereon a legend substantially to the following effect (or such other legend(s) of similar content as may be specified in the Supplemental Resolution authorizing the Series of Bonds of which such Book Entry Bond is a part as may be determined to be necessary or desirable by the City or such Securities Depository);~~

~~“AS PROVIDED IN THE RESOLUTION REFERRED TO HEREIN, UNTIL THE TERMINATION OF THE CITY OF BOOK ENTRY ONLY TRANSFERS THROUGH [NAME OF SECURITIES DEPOSITORY] (TOGETHER WITH ANY SUCCESSOR SECURITIES DEPOSITORY APPOINTED PURSUANT TO THE RESOLUTION, “[NAME OF SECURITIES DEPOSITORY]”), AND NOTWITHSTANDING ANY OTHER PROVISION OF THE RESOLUTION TO THE CONTRARY, (A) THIS BOND MAY BE TRANSFERRED, IN WHOLE BUT NOT IN PART, ONLY TO A NOMINEE OF [NAME OF SECURITIES DEPOSITORY], OR BY A NOMINEE OF [NAME OF SECURITIES DEPOSITORY] TO [NAME OF SECURITIES DEPOSITORY] OR A NOMINEE OF [NAME OF SECURITIES DEPOSITORY], OR BY [NAME OF SECURITIES DEPOSITORY] OR A NOMINEE OF [NAME OF SECURITIES DEPOSITORY] TO ANY SUCCESSOR SECURITIES DEPOSITORY OR ANY NOMINEE THEREOF AND (B) A PORTION OF THE PRINCIPAL AMOUNT OF THIS BOND MAY BE PAID OR REDEEMED WITHOUT SURRENDER HEREOF TO THE PAYING AGENT. [NAME OF SECURITIES DEPOSITORY] OR A NOMINEE, TRANSFEREE OR ASSIGNEE OF [NAME OF SECURITIES DEPOSITORY] OF THIS BOND MAY NOT RELY UPON THE PRINCIPAL AMOUNT INDICATED HEREON AS THE PRINCIPAL AMOUNT HEREOF OUTSTANDING AND UNPAID. THE PRINCIPAL AMOUNT HEREOF OUTSTANDING AND UNPAID SHALL FOR ALL PURPOSES BE THE AMOUNT DETERMINED IN THE MANNER PROVIDED IN THE RESOLUTION.”~~

Anything in the 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 Bond as to which such payment has been made and (ii) the Resolution, the unpaid principal amount of such Book Entry Bond Outstanding shall be reduced automatically by the principal amount so paid. In such event, the Paying Agent shall notify forthwith the Trustee and the Bond Registrar as to the particular Book Entry Bond as to which such payment has been made, and the principal amount of such Bond so paid, and the 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 Bond Outstanding as provided in this subsection.

6. For all purposes of the Resolution authorizing or permitting the purchase of Bonds, or portions thereof, by, or for the account of, the City for cancellation, and anything in the Resolution to the contrary notwithstanding, a portion of a Book Entry Bond may be deemed to have been purchased and cancelled without surrender thereof upon delivery to the 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 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 Bond shall be effective for purposes of the Resolution only upon surrender of such Book Entry Bond to the Bond Registrar; and provided, further, that no portion of a Book Entry Bond may be deemed to have been so purchased and cancelled without surrender thereof unless such Book Entry Bond shall contain or have endorsed thereon the legend(s) referred to in subsection 5 of this Section 309. Anything in the Resolution to the contrary notwithstanding, upon delivery of any such certificate to the Bond Registrar, for all purposes of (i) the Book Entry Bond to which such certificate relates and (ii) the Resolution, the unpaid principal amount of such Book Entry Bond Outstanding shall be reduced automatically by the principal amount so purchased. In such event, the Bond Registrar shall notify forthwith the Trustee as to the particular Book Entry Bond as to which a beneficial ownership interest therein has been so purchased, and the principal amount of such Bond so purchased, and the Bond Registrar shall note such reduction in principal amount of such Book Entry 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 Bond Outstanding as provided in this subsection.

7. Anything in the Resolution to the contrary notwithstanding, a Securities Depository may make a notation on a Book Entry 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 Bond Outstanding as provided in subsection 5 or 6 of this Section 309, as the case may be.

8. Anything in the Resolution to the contrary notwithstanding, in the case of a Book Entry Bond, the City shall be authorized to redeem or purchase (by or for the account of the City), or issue Refunding Bonds 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 Resolution authorizing such Book Entry Bond), and in the event of such partial defeasance, redemption, purchase or refunding, the provisions of the Resolution relating to the defeasance, redemption, purchase or refunding of a Bond or Bonds shall be deemed to refer to the redemption, purchase or refunding of a portion of a Bond.

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**SECTION 402. Redemption at the Election or Direction of the City.** In the case of any redemption of Bonds at the election or direction of the City, the City shall give written notice to the Trustee of its election or direction so to redeem, of the redemption date, of the Series, and of the principal amounts of the Bonds of each maturity of such Series and of the 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 Resolution or any Supplemental Resolution authorizing the Series of which such Bonds are a part). Such notice shall be given at least 4030 days prior to the redemption date or such shorter period (a) as shall be specified in the Supplemental Resolution authorizing the Series of Bonds to be redeemed or (b) as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as in Section 405 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 Paying Agents an amount which, in addition to other moneys, if any, available therefor held by such 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 Bonds to be redeemed. The City shall promptly notify the Trustee in writing of all such payments by it to a Paying Agent.

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**SECTION 404. Selection of Bonds to be Redeemed.** ~~Except as otherwise provided by Supplemental Resolution, if~~ fewer than all of the Bonds of like maturity or interest rate within a maturity of any Series shall be called for prior redemption, the particular Bonds or portions of 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 Bonds for redemption, the Trustee shall treat each such Bond as representing that number of 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.

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**SECTION 501. The Pledge Effected by the Resolution.** 1. The Bonds and Parity Hedging Contract Obligations shall be direct and special obligations of the City payable solely from and secured as to the payment of the principal and Redemption Price thereof, and interest thereon, in accordance with their terms and the provisions of the Resolution solely by the Trust Estate and the Trust Estate hereby is pledged and assigned to the Trustee for the benefit of the holders of the Bonds and Parity Hedging Contract Obligations, 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.

2. The Trust Estate shall immediately be subject to the lien and charge of this Resolution without any physical delivery thereof or further act, and the lien and charge of this 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.

3. Amounts on deposit in any separate subaccount established in the Debt Service Reserve Account in the Debt Service Fund, including the investments, if any, thereof, are hereby pledged and assigned to the Trustee as additional security for the payment of the principal

and Redemption Price thereof, and interest thereon, the Bonds of each Additionally Secured Series secured thereby, 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.

4. The 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 Bondholder shall ever have the right, directly or indirectly, to require or compel the exercise of the ad valorem taxing power of the City for the payment of the principal of or interest on the Bonds or the making of any payments hereunder. The Bonds and the obligations evidenced thereby shall not constitute a lien on any property of or in the City, other than the Trust Estate and, in the case of the Bonds of each Additionally Secured Series, the separate subaccount in the Debt Service Reserve Account in the Debt Service Fund established therefor as herein provided.

5. Nothing contained in the Resolution shall be construed to prevent the City from acquiring, constructing or financing through the issuance of its bonds, notes or other evidences of indebtedness any facilities which do not constitute a part of the System for the purposes of the Resolution or from securing such bonds, notes or other evidences of indebtedness, to the extent permitted by law, by a mortgage of the facilities so financed or by a pledge of, or other security interest in, the revenues therefrom or any lease or other agreement with respect thereto or any revenues derived from such lease or other agreement; provided that such bonds, notes or other evidences of indebtedness shall not be payable out of or secured by the Trust Estate and neither the cost of such facilities nor any expenditure in connection therewith or with the financing thereof shall be payable from the Trust Estate.

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**SECTION 504. Revenues and Revenue Fund.** As soon as practicable after the receipt of any Revenues and Subsidy Payments, and in any event within ten days of such receipt, the City shall deposit such Revenues in the Revenue Fund. Connection Fees shall only be applied to the extent legally permissible.

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**SECTION 505. Disposition of Revenues.** 1. On or before the last ~~business day~~ Business Day of each calendar month, the Revenues and Subsidy Payments actually received by the City and deposited into the Revenue Fund shall be applied, to the extent available, only in the following manner and in the following order of priority (such application to be made in such a manner so as to assure good funds in such Funds and Accounts on the last ~~business day~~ Business Day of such month):

(1) Each month the City shall pay from the Revenue Fund such sums as are necessary to meet Operation and Maintenance Expenses for such month;

(2) The City shall transfer from the Revenue Fund to the Rate Stabilization Fund the amount, if any, budgeted for deposit into such Fund for the then current month as set forth in the current Annual Budget or the amount otherwise determined by the City to be credited to such Fund for the month;

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

(4) The City shall next forward to the Trustee, for deposit from Revenues in the Subordinated Indebtedness Fund, the amount, if any, as shall be required to be deposited therein in the then current month to pay principal or sinking fund installments of and premiums, if any, and interest and other amounts due, on each issue of Subordinated Indebtedness coming due in such month, whether as a result of maturity or prior call for redemption, and to provide reserves therefor, as required by the Supplemental Resolution authorizing such issue of Subordinated Indebtedness; and

(5) The City shall next pay into the Utilities Plant Improvement Fund such amount as it shall deem appropriate provided that for each Fiscal Year deposits into such Fund shall be at least equal to one-half (1/2) of the Net Revenues, during the immediately preceding Fiscal Year, less the sum of (i) Aggregate Debt Service during the immediately preceding Fiscal Year and (ii) interest and principal paid during the immediately preceding Fiscal Year with respect to all Subordinated Indebtedness payable out of Revenues under this Resolution.

2. The balance of any moneys remaining in the Revenue Fund after the above required payments have been made may be used by the City for any lawful purpose; provided, however, that none of the remaining moneys shall be used for any purpose other than those hereinabove specified unless all current payments, including payments to the Utilities Plant Improvement Fund calculated on a pro rata annual basis, and including all deficiencies in prior payments, if any, have been made in full and unless the City shall have complied fully in all material respects with all the covenants and provisions of the Resolution; and provided, further, that so long as there shall be held in the Debt Service Fund an amount sufficient to pay in full all Outstanding Bonds and Parity Hedging Contract Obligations in accordance with their terms

(including the maximum amount of principal or applicable sinking fund Redemption Price and interest which could become payable thereon), no transfers shall be required to be made to the Debt Service Fund.

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**SECTION 507. Debt Service Fund – Debt Service Account.** 1. The Trustee shall pay out of the Debt Service Account to the respective Paying Agents (i) on or before each interest payment date for any of the Bonds the amount required for the interest payable on such date; (ii) on or before each Principal Installment due date, the amount required for the Principal Installment payable on such due date; and (iii) on or before any redemption date for the Bonds, the amount required for the payment of interest on the Bonds then to be redeemed. Such amounts shall be applied by the Paying Agents on and after the due dates thereof. The Trustee shall also pay out of the Debt Service Account the accrued interest included in the purchase price of Bonds purchased for retirement and, at the direction of an Authorized Officer of the City, on or before the due date thereof, amounts due in respect of any Parity Hedging Contract Obligation.

2. Amounts accumulated in the Debt Service Account with respect to any Sinking Fund Installment (together with amounts accumulated therein with respect to interest on the Bonds for which such Sinking Fund Installment was established) may and, if so directed by the City, shall be applied by the Trustee, on or prior to the 60th day preceding the due date of such Sinking Fund Installment, to (i) the purchase of 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 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 Debt Service Account (exclusive of amounts, if any, set aside in said Account which were deposited therein from proceeds of Bonds) may, and, if so directed by the City, shall, be applied by the Trustee to the purchase of 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 Bonds pursuant to this paragraph 2 shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Bonds plus accrued interest, and such purchases shall be made by the Trustee as directed by the City. The applicable sinking fund Redemption Price (or principal amount of maturing Bonds) of any Bonds so purchased or redeemed shall be deemed to constitute part of the Debt Service Account until such Sinking Fund Installment date, for the purpose of calculating the amount of such Account. As soon as practicable after the 40th day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption, by giving notice each maturity for which such Sinking Fund Installment was established (except in the case of 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 Bonds purchased or redeemed pursuant to Section 510 which the City has directed the Trustee to apply as a credit against such Sinking Fund Installment as provided in Section 511. The Trustee shall pay out of the Debt Service Account to the appropriate Paying Agents, on or before such redemption date (or maturity date), the amount required for the redemption of the Bonds so called for redemption (or for the payment of such Bonds then maturing), and such amount shall be applied by such Paying Agents to such redemption (or

payment). All expenses in connection with the purchase or redemption of Bonds shall be paid by the City from the Revenue Fund.

3. The amount, if any, deposited in the Debt Service Account from the proceeds of each Series of Bonds shall be set aside in such Fund and applied to the payment of interest on Bonds either (a) as such interest is scheduled to accrue during such period or (b) in accordance with certificates of the City delivered to the Trustee pursuant to clause (402) of paragraph 1 of Section 202 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 and filed with the Trustee, (with a copy to the Co-Trustee, if any), then in accordance with the most recent such certificates or amended certificates.

4. In the event of the refunding or defeasance of any Bonds, the Trustee shall, if the City so directs, withdraw from the Debt Service Account in the Debt Service Fund all, or any portion of, the amounts accumulated therein and deposit such amounts with itself as Trustee or such other Depository to be held for the payment of the principal or Redemption Price, if applicable, and interest on the Bonds being refunded or deposited in accordance with Section 1201 hereof; provided that such withdrawal shall not be made unless (a) immediately thereafter the Bonds being refunded shall be deemed to have been paid pursuant to paragraph 2 of Section 1201, and (b) the amount remaining in the Debt Service Account in the Debt Service Fund, after giving effect to the issuance of the Refunding Bonds and the disposition of the proceeds thereof, shall not be less than the requirement of such Account pursuant to clause (3) of paragraph 1 of Section 505. In the event of such refunding or defeasance, the City may also direct the Trustee to withdraw from the Debt Service Account in the Debt Service Fund all, or any portion of, the amounts accumulated therein and deposit such amounts in any Fund or Account under this Resolution; provided, however, that such withdrawal shall not be made unless items (a) and (b) referred to hereinabove have been satisfied and provided, further, that, at the time of such withdrawal, there shall exist no deficiency in any Fund or Account held under this Resolution.

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**SECTION 508. Debt Service Fund – Debt Service Reserve Account.** 1. There shall be established in the Debt Service Reserve Account in the Debt Service Fund one or more separate subaccounts, each of which subaccounts shall be for the benefit and security of one or more Series of Bonds, in the manner and to the extent provided in the Supplemental Resolution establishing each such subaccount. If on the last Business Day of any month the amount in the Debt Service Account shall be less than the amount required to be in such Account pursuant to clause (3) of paragraph 1 of Section 505, the Trustee shall apply amounts from each separate subaccount in the Debt Service Reserve Account to the extent necessary to cure the deficiency.

2. Whenever the moneys on deposit in any subaccount established in the Debt Service Reserve Account shall exceed the Debt Service Reserve Requirement related thereto, after giving effect to any surety bond, insurance policy, letter of credit, or other similar obligation deposited in such Account pursuant to paragraph 4 of this Section 508, such excess shall upon the request of the City, or pursuant to a Supplemental Resolution, be transferred to the City and credited upon the City's receipt thereof to make up any deficiencies in the Subordinated Indebtedness Fund and the Utilities Plant Improvement Fund, in that order. Any balance of such excess shall be credited to the Revenue Fund.

3. Whenever the amount in any subaccount established in the Debt Service Reserve Account, without giving effect to any surety bond, insurance policy, letter of credit or other similar obligation deposited in such Account pursuant to paragraph 4 of this Section 508, together with the amount in the Debt Service Account, is sufficient to pay in full all Outstanding Bonds and Parity Hedging Contract Obligations in accordance with their terms (including the maximum amount of principal or applicable sinking fund Redemption Price and interest which could become payable thereon), the funds on deposit in the Debt Service Reserve Account shall be transferred to the Debt Service Account. Prior to said transfer, all investments held in the Debt Service Reserve Account shall be liquidated to the extent necessary in order to provide for the timely payment of principal and interest (or Redemption Price) on Bonds. Any provision of the Resolution to the contrary notwithstanding, so long as there shall be held in the Debt Service Fund an amount sufficient to pay in full all Outstanding Bonds in accordance with their terms (including the maximum amount of principal or applicable sinking fund Redemption Price and interest which could become payable thereon), no deposits shall be required to be made into the Debt Service Reserve Account.

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

5. In the event of the refunding or defeasance of any Bonds of an Additionally Secured Series, the Trustee shall, if the City so directs, withdraw from the separate subaccount in

the Debt Service Reserve Account in the Debt Service Fund established for the benefit of the Bonds of such Additionally Secured Series all, or any portion of, the amounts accumulated therein and deposit such amounts with itself as Trustee or such other Depository to be held for the payment of the principal or Redemption Price, if applicable, and interest on the Bonds being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter the Bonds being refunded shall be deemed to have been paid pursuant to paragraph 2 of Section 1201, and (b) the amount remaining in such separate subaccount in the Debt Service Reserve Account in the Debt Service Fund, after giving effect to any surety bond, insurance policy, letter of credit or other similar obligation deposited in such subaccount pursuant to paragraph 4 of this Section 508, after giving effect to the issuance of the Refunding Bonds and the disposition of the proceeds thereof, shall not be less than the Debt Service Reserve Requirement related thereto. In the event of such refunding or defeasance, the City may also direct the Trustee to withdraw from such separate subaccount in the Debt Service Reserve Account all or any portion of the amounts accumulated therein and deposit such amounts in any Fund or Account under the Resolution; provided that such withdrawal shall not be made unless items (a) and (b) referred to hereinabove have been satisfied; and provided further, that, at the time of such withdrawal, there shall exist no deficiency in any Fund or Account held under the Resolution.

6. If on any valuation date the amount on deposit in the Debt Service Reserve Account or any subaccount therein is less than 100% of the Debt Service Reserve Requirement as a result of a decline in the market value of investments in the Debt Service Reserve Account or any subaccount therein, the City shall deposit in the Debt Service Reserve Account or any such subaccount therein the amount necessary to restore the amount on deposit therein to the Debt Service Reserve Requirement (i) within not more than 90 days following the date of such valuation, or (ii) with respect to a subaccount in the Debt Service Reserve Account created by a Supplemental Resolution, as otherwise provided by such Supplemental Resolution.

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**SECTION 509. Subordinated Indebtedness Fund.** 1. Subject to paragraph 3 hereof, the Trustee shall apply amounts in the Subordinated Indebtedness Fund to the payment of the principal or sinking fund installments of and interest and premium and other amounts due on each issue of Subordinated Indebtedness and reserves therefor in accordance with the provisions of, and subject to the priorities and limitations and restrictions provided in, the Supplemental Resolution authorizing each issue of Subordinated Indebtedness.

2. At any time and from time to time the City may deposit in the Subordinated Indebtedness Fund for the payment of the principal or sinking fund installments of and interest and premium and other amounts due on each issue of Subordinated Indebtedness amounts received from the proceeds of additional issues of Subordinated Indebtedness or amounts received from any other source.

3. If at any time the amounts in the Debt Service Account or in any separate subaccount in the Debt Service Reserve Account shall be less than the current requirements of such accounts, respectively, pursuant to clause (3) of paragraph 1 of Section 505 and there shall not be on deposit in the Utilities Plant Improvement Fund available moneys sufficient to cure such deficiency, then the Trustee shall withdraw from the Subordinated Indebtedness Fund and deposit in the Debt Service Account or such separate subaccount(s) in the Debt Service Reserve Account,

as the case may be, the amount necessary (or all the moneys in said Fund, if less than the amount necessary) to make up such deficiency (or, if the amount in said Fund shall be less than the amount necessary to make up the deficiencies with respect to the Debt Service Account and all of the separate subaccounts in the Debt Service Reserve Account, then the amount in said Fund shall be applied first to make up the deficiency in the Debt Service Account, and any balance remaining shall be applied ratably to make up the deficiencies with respect to the separate subaccounts in the Debt Service Reserve Account, in proportion to the deficiency in each such subaccount).

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**SECTION 601. Depositories.** 1. All moneys held by the Trustee and the Co-Trustee under the provisions of the Resolution shall constitute trust funds and the Trustee and Co-Trustee may deposit such moneys with one or more Depositories in trust for said parties. All moneys held by the City under the Resolution shall, except as otherwise provided herein, constitute trust funds and the City shall deposit such moneys with one or more Depositories in trust for the Trustee and the Co-Trustee, if any. All moneys deposited under the provisions of the Resolution with the Trustee, the Co-Trustee or any Depository shall be held in trust and applied only in accordance with the provisions of the Resolution, and each of the Funds and Accounts established by the Resolution shall be a trust fund for the purposes thereof.

2. Each Depository shall be a bank, savings and loan association or trust company organized under the laws of any state of the United States or a national banking association having capital stock, surplus and undivided earnings aggregating at least \$10,000,000 and willing and able to accept the office on reasonable and customary terms and authorized by law to act in accordance with the provisions of the Resolution.

3. Moneys and securities credited to any Fund or Account under the Resolution held by the City may be commingled with moneys and securities credited to other Funds or Accounts under the Resolution held by the City for purposes of establishing checking or other bank accounts, for purposes of investing funds or otherwise; provided, however, the City shall at all times maintain or cause to be maintained accurate books and records reflecting the amounts credited to each Fund and Account under the Resolution held by the City. All withdrawals from any commingled moneys shall be charged against the proper Fund or Account under the Resolution and no moneys shall be withdrawn from commingled moneys if there is not on credit to the Fund or Account under the Resolution to be charged sufficient funds to cover such withdrawal.

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**SECTION 602. Deposits.** 1. All Revenues and other moneys held by any Depository under the Resolution may be placed on demand or time deposit, if and as directed by the City, provided that such deposits shall permit the moneys so held to be available for use at the time when needed. All such moneys deposited with a Fiduciary, acting as a Depository, may be made in the commercial banking department of any Fiduciary which may honor checks and drafts on such deposit with the same force and effect as if it were not such Fiduciary. All moneys held by any Fiduciary, as such, may be deposited by such Fiduciary in its banking department on demand or, if and to the extent directed by the City and acceptable to such Fiduciary, on time deposit, provided that such moneys on deposit be available for use at the time when needed. Such

Fiduciary shall allow and credit on such moneys such interest, if any, as it customarily allows upon similar funds of similar size and under similar condition or as required by law.

2. All moneys held under the Resolution by the Trustee, Co-Trustee or any Depository shall not at any time exceed 10% of the combined capital, surplus and undivided earnings of the Trustee, Co-Trustee or such Depository, as the case may be, unless such moneys are (x) either (1) fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, or (2) secured, to the extent not insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, by lodging with the Trustee, or Co-Trustee, as custodian, as collateral security, Investment Securities having a market value (exclusive of accrued interest) not less than the amount of such moneys (or portion thereof not insured by the Federal Deposit Insurance Corporation), and held in such other manner as may then be required by applicable Federal or State of Florida laws and regulations and applicable state laws and regulations of the state in which the Trustee, Co-Trustee or such Depository (as the case may be) is located, regarding security for, or granting a preference in the case of, the deposit of trust funds; provided, however, that, to the extent permitted by law, it shall not be necessary for the Fiduciaries to give security under this paragraph 2 for the deposit of any moneys with them held in trust and set aside by them for the payment of the principal or Redemption Price of or interest on any Bonds, or for the Trustee, Co-Trustee or any Depository to give security for any moneys which shall be represented by obligations or certificates of deposit purchased as an investment of such moneys, or (y) collateralized to the extent required by Depositories under Florida law with respect to deposits of the City.

3. All moneys deposited with the Trustee, Co-Trustee and each Depository shall be credited to the particular Fund or Account to which such moneys belong.

4. Whenever moneys are required to be transferred from one Fund or Account created under the Resolution to another Fund or Account, such transfer may be made by the transfer of cash or the transfer of Investment Securities in an amount sufficient to satisfy the purpose for which such transfer is required.

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**SECTION 603. Investment of Certain Funds.** Moneys held in the Debt Service Account in the Debt Service Fund and in the Debt Service Reserve Account in the Debt Service Fund shall be invested and reinvested to the fullest extent practicable in Investment Securities as shall be directed by the City which mature not later than at such times as shall be necessary to provide moneys when needed for payments to be made from such Accounts. Subject to the terms of any resolutions, indentures, or other instruments securing any issue of Subordinated Indebtedness, moneys in the Subordinated Indebtedness Fund shall be invested and reinvested to the fullest extent practicable in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from said Fund. Moneys held in the Revenue Fund and the Construction Fund may be invested and reinvested in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such Funds. Moneys in the Rate Stabilization Fund and the Utilities Plant Improvement Fund may be invested in Investment Securities which ~~mature within five years from the date of such investment, and in any case the Investment Securities in such Funds or in the Accounts therein shall~~ mature not later than such times as shall

be necessary to provide moneys when needed to provide payments from such Funds or Accounts. The Trustee or the Co-Trustee, as the case may be, shall make all such investments of moneys held by it in accordance with written instructions received from any Authorized Officer of the City. In making any investment in any Investment Securities with moneys in any Fund or Account established under the Resolution, the City may, and may instruct the Trustee and the Co-Trustee to, combine such moneys with moneys in any other Fund or Account, but solely for purposes of making such investment in such Investment Securities.

Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) earned on any moneys or investments in such Funds and Accounts, other than the Construction Fund, to the extent the balance in such fund or account exceeds the minimum amount required to be on deposit therein, shall be paid into the Revenue Fund; provided, however, that if the City so directs, such income earned on moneys or investments in any Fund or Account, or any portion thereof, shall be paid into the Construction Fund. Interest earned on any moneys or investments in the Construction Fund shall be held in such Fund for application as provided in Section 503 or, if so directed by the City, paid into the Revenue Fund and applied for such purpose that in the opinion of Bond Counsel will not, in and of itself, result in interest on any tax-exempt Bonds to be includable in the gross income of the holders thereof for Federal income tax purposes.

Nothing in the Resolution shall prevent any Investment Securities acquired as investments of funds held under the Resolution from being issued or held in book-entry form on the books of the Department of the Treasury of the United States.

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**SECTION 604. Valuation and Sale of Investments.** Obligations purchased as an investment of moneys in any Fund created under the provisions of the Resolution shall be deemed at all times to be a part of such Fund and any profit realized from the liquidation of such investment shall be credited to such Fund and any loss resulting from the liquidation of such investment shall be charged to such Fund.

In computing the amount in any Fund created under the provisions of the Resolution for any purpose provided in the Resolution, obligations purchased as an investment of moneys therein shall be valued at ~~the amortized cost thereof~~ their fair market value as of the date of determination. The accrued interest paid in connection with the purchase of any obligation shall be included in the value thereof until interest on such obligation is paid. Such computation shall be made as of September 30 in each year and at such other times as the City shall determine. In the event that the City causes to be deposited in any separate subaccount in the Debt Service Reserve Account for the benefit of the holders of Bonds of any Additionally Secured Series, pursuant to the provisions of paragraph 4 of Section 508, an irrevocable surety bond, an insurance policy, a letter of credit or any other similar obligation, such surety bond, insurance policy, letter of credit or other obligation shall be valued at the lesser of the face amount thereof or the maximum amount available thereunder.

Except as otherwise provided in the Resolution, the Trustee or the Co-Trustee, if any, shall sell at the best price obtainable, or present for redemption, any obligation so purchased as an investment whenever it shall be requested in writing by an Authorized Officer of the City so

to do. Whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by the Trustee or the Co-Trustee, if any, the Trustee or the Co-Trustee, if any, shall sell at the best price obtainable or present for redemption such obligation or obligations designated by an Authorized Officer of the City necessary to provide sufficient moneys for such payment or transfer; provided, however, that if the City fails to provide such designation promptly after request thereof by the Trustee or the Co-Trustee, if any, the Trustee or the Co-Trustee, if any, may in its discretion select the obligation or obligations to be sold or presented for redemption. Neither the Trustee nor the Co-Trustee, if any, shall be liable or responsible for any loss resulting from the making of any such investment or the sale of any obligation in the manner provided above.

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**SECTION 702. ~~Reserved. Extension of Payment of Bonds.~~** ~~The City shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of claims for interest by the funding of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time for payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Resolution, to the benefit of the Resolution or to any payment out of Revenues or Funds established by the Resolution, including the investments, if any, thereof, pledged under the Resolution or the moneys (except moneys held in trust for the payment of particular Bonds or claims for interest pursuant to the Resolution) held by the Fiduciaries, except subject to the prior payment of the principal of all Bonds Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest. Nothing herein shall be deemed to limit the right of the City to issue Option Bonds or Refunding Bonds, and neither such issuance nor the exercise by the holder of any Option Bond of any of the rights appertaining to such Option Bond shall be deemed to constitute an extension of maturity of Bonds.~~

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**SECTION 708. Annual Budget.** For each Fiscal Year the City shall prepare and adopt a budget for the System for the next ensuing Fiscal Year. ~~Such budget shall be promptly delivered to the Trustee and the Co-Trustee, if any. If necessary, the City shall immediately promptly increase rates if and when any such increase is required in order to produce budgeted anticipated Revenues, or taking into account amounts on deposit in any funds or accounts established herein, to comply with the requirements of the rate covenant in Section 710 hereof.~~

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**SECTION 710. 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 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.

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.

3. In estimating Aggregate Debt Service on any Variable Rate Bonds, Parity Commercial Paper Notes or Parity Medium-Term Notes for purposes of paragraph 1 of this Section 710, 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.

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**SECTION 712. Maintenance of Insurance; Reconstruction; Application of Insurance Proceeds.** 1. The City shall provide protection for the System both in accordance with the requirements of all agreements, if any, to which the City may at the time be a party with respect to joint ownership by the City with others of electric, water, wastewater, natural gas, telecommunications or other System facilities, and in accordance with Prudent Utility Practice. Said protection may consist of insurance, self insurance and indemnities. The City will keep, or cause to be kept, the works, plants and facilities comprising the properties of the System insured, and will carry such other insurance against fire and other risks, accidents or casualties at least to the extent and of the kinds that insurance is usually carried by governmental utilities operating like properties in the State of Florida. Any insurance shall be in the form of policies or contracts for insurance with insurers of good standing, shall be payable to the City and may provide for such deductibles, exclusions, limitations, restrictions and restrictive endorsements customary in policies for similar coverage issued to entities operating properties similar to the properties of the System. Any self insurance shall be in the amounts, manner and of the type provided by entities operating properties similar to the properties of the System. ~~Within one hundred and eighty (180) days after the close of each Fiscal Year the City will file with the Trustee and the Co-Trustee, if any, a certificate stating whether during such year the System has suffered damage or destruction in an amount of more than \$2,000,000 and, if so, the amount of insurance proceeds received on account of such damage or destruction and specifying the reasonable and necessary cost of reconstruction or replacement.~~



2. In the event of any loss or damage to the System covered by insurance, the City will, at its option, (i) with respect to each such loss, promptly repair, reconstruct or replace the parts of the System affected by such loss or damage to the extent necessary to the proper conduct of the operation of the business of the System, shall cause the proceeds of such insurance to be applied for that purpose to the extent required therefor, and pending such application (ii) purchase or redeem Bonds, or (iii) deposit into the Revenue Fund, if the failure to repair, reconstruct, or replace such property facilities will not impair the ability of the City to comply during the current or any future Fiscal Year with the provisions of Section 710, and upon receipt of an opinion of Bond Counsel to the effect that such deposit will not, in and of itself, cause interest on any tax-exempt Bonds issued hereunder to become includable in the gross income of the holders thereof for federal income tax purposes. Pending such application the City shall hold the proceeds of any insurance policy covering such damage or loss in trust to be applied for that purpose to the extent required therefor. Any excess insurance proceeds received by the City shall be transferred to the Revenue Fund and applied for such purposes that in the opinion of Bond Counsel will not, in and of itself, cause interest on any tax-exempt Bonds issued hereunder to become includable in the gross income of the holders thereof for federal income tax purposes. Proceeds received from such insurance proceeds and condemnation awards shall not be deemed Revenues.

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**SECTION 713. Accounts and Reports.** 1. The City shall keep or cause to be kept proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the System and each Fund and Account established under the Resolution in accordance with the Uniform System of Accounts. All such books of record, together with all other books and papers of the City, including insurance policies, relating to the System, shall at all times be subject to the inspection of the Trustee, the Co-Trustee and the Holders of an aggregate of not less than 5% in principal amount of the Bonds then Outstanding or their representatives duly authorized in writing.

2. The Trustee and the Co-Trustee shall advise the City promptly after the end of each month of their respective transactions during such month relating to each Fund and Account held by them under the Resolution. The City shall advise the Trustee and the Co-Trustee, if any, promptly after the end of each fiscal quarter of transactions during such quarter relating to each Fund and Account held by it under the Resolution.

3. The City shall annually, ~~within one hundred and eighty (180) days after the close of each Fiscal Year, file with the Trustee and the Co-Trustee, if any, and otherwise as provided by law, a copy of an annual report for such Fiscal Year, accompanied by an Accountant's Report relating to the System and including the following statements in reasonable detail: a balance sheet of the System at the close of such Fiscal Year; and a Statement of Revenues and Operation and Maintenance Expenses for such Fiscal Year. Such Accountant's Report shall also state that in the course of the examination made for purposes of such report, such accountant or firm of accountants, as the case may be, obtained no knowledge, except as specifically stated, of any default by the City, with respect to any of the covenants, agreements or conditions on its part contained in the Resolution; cause to be prepared an audit of its accounts and records after the end of each Fiscal Year by an independent certified public accountant of recognized standing. Such audit shall be conducted in accordance with generally accepted auditing standards as applied to governments.~~

4. In the event that the annual report of the City pursuant to paragraph 3 of this Section 713 shows that the Net Revenues for the preceding Fiscal Year were not equal to at least 1.10 times the Aggregate Debt Service for such preceding Fiscal Year, the City shall cause the Consulting Engineer to file with the City, the Trustee and the Co-Trustee, if any, a certificate stating specific changes in operation procedures or revisions in rates, fees and charges, or both, which may be made and which would, in the aggregate, in its opinion, have resulted in Net Revenues being equal to at least 1.25 times the Aggregate Debt Service for such preceding Fiscal Year. Within 30 days of receipt of any such certificate, the City shall be entitled to present to the Consulting Engineer, for its consideration, alternative recommendations for the purpose of achieving such level of debt service coverage. The City covenants and agrees to effect the changes, revisions or both, which the Consulting Engineer determines, after consideration of the recommendations of the City, would, in the aggregate, have produced such level of debt service coverage. The Consulting Engineer shall promptly file a certificate setting forth such determination with the City, the Trustee and the Co-Trustee, if any.

5. The reports, statements and other documents required to be furnished to the Trustee pursuant to any provisions of the Resolution shall be available for the inspection of Bondholders at the office of the Trustee and shall be mailed to each Bondholder who shall file a written request therefor with the City. The City may charge for such reports, statements and other documents, a reasonable fee to cover reproduction, handling and postage.

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**SECTION 717. ~~Additional Change of~~ Utility Functions.** The City may expand the utility functions of the System as they exist on the date hereof as permitted by the proviso contained in the definition of "System" in Section 101, only if the City files with the Trustee a certified copy of resolutions of the Commission to the effect that, based upon such certificates and opinions of its Consulting Engineers, independent certified public accountants, bond counsel, financial advisors or other appropriate advisors as the Commission shall deem necessary or appropriate, the addition of such utility functions (a) will not impair the ability of the City to comply during the current or any future Fiscal Year with the provisions of the Resolution, including specifically Section 710, and (b) will not materially adversely affect the rights of the Holders of the Bonds.

Notwithstanding any other provisions of this Resolution, including without limitation, paragraph 2 of Section 707 and Section 715 hereof, the definition of "System" may be amended to specifically exclude any component thereof, other than the electric system, water system and wastewater system, provided that before it shall become effective, the City shall submit to the Trustee (i) a certificate to the effect that the remaining Revenues in the year in which the exclusion is to be made will be sufficient to meet the City's Rate Covenant in Section 710 in such year and (ii) a certificate from a Consulting Engineer reasonably acceptable to each Credit Enhancer to the effect that, based on its projections and subject to customary assumptions and limitations, the deletion of such revenues from the lien of this Resolution will not adversely affect the City's ability to meet the City's Rate Covenant pursuant to Section 710 in each of the five Fiscal Years following the effective date of such amendment.

The City covenants that it will provide each of the national rating agencies then carrying an effective rating on the Bonds with a copy of any amendments made to this Resolution

pursuant to the provisions hereof; however, failure to timely provide such notice shall not effect the validity of any such amendment or cause a default under this Resolution.

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**SECTION 801. Events of Default.** If one or more of the following Events of Default shall happen:

(i) if default shall be made in (a) the due and punctual payment of the principal or Redemption Price of any Bond (other than Parity Reimbursement Obligations) when and as the same shall become due and payable, whether at maturity or by call or proceedings for redemption, or otherwise, (b) in the due and punctual payment of any amounts due on Parity Reimbursement Obligations (after the lapse of any notice requirements or grace periods, or both, as provided by the applicable Parity Reimbursement Obligation):

(ii) if default shall be made in the due and punctual payment of any installment of interest on any 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 710 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 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 Resolution or in the Bonds contained, and such default shall have continued 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 the Trustee or to the City and to the Trustee by the Holders of not less than 25% in principal amount of the Bonds Outstanding; provided, however, the City shall not be deemed in default hereunder if such default can be cured within a reasonable period of time and if the City in good faith institutes applicable curative action and within 90 days of such notice 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; or

(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;

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 Bonds shall have already become due and payable, either the Trustee (by notice in writing to the City and the Co-Trustee, if any), or the Holders of not less than 25% in principal amount of the Bonds Outstanding (by notice in writing to the City, the Trustee and the Co-Trustee, if any), may declare the principal of all the 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 Resolution or in any of the Bonds contained to the contrary notwithstanding. The right of the Trustee or of the Holders of not less than 25% in principal amount of the 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 Bonds shall have matured by their terms, all overdue installments of interest on the 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 Resolution, including, without limitation, Parity Hedging Contract Obligations then due (except the principal of, and interest accrued since the next preceding interest date on, the Bonds due and payable solely by virtue of such declaration), shall either be paid by or for the account of the City or provision satisfactory to the Trustee and the Co-Trustee, if any, shall be made for such payment, and all defaults under the Bonds or under the Resolution (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be made good or be secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, then and in every such case the Holders of 25% in principal amount of the Bonds Outstanding, by written notice to the City, the Trustee and the Co-Trustee, if any, may rescind such declaration and annul such default in its entirety, or, if the Trustee shall have acted itself, and if there shall not have been theretofore delivered to the Trustee written direction to the contrary by the Holders of 25% in principal amount of the Bonds Outstanding, then any such declaration shall *ipso facto* be deemed to be rescinded and any such default shall *ipso facto* be deemed to be annulled, but no such rescission or annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

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**SECTION 808. Effect of Waiver and Other Circumstances.** 1. No delay or omission of the Trustee or any Bondholder 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 Trustee or to the Bondholders may be exercised from time to time and as often as may be deemed expedient by the Trustee or by the Bondholders.

2. Prior to the declaration of maturity of the Bonds as provided in Section 801, the Holders of not less than ~~66 2/3%~~ a majority in aggregate principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the Holders of all of

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the Bonds waive any past default under the Resolution and its consequences, except a default in the payment of interest on or principal of or premium (if any) on any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

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**SECTION 1002. Supplemental Resolutions Effective Upon Consent of Trustee.** For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which, upon (i) the filing with the Trustee and the Co-Trustee, if any, of a copy thereof certified by an Authorized Officer of the City, and (ii) the filing with the Co-Trustee, if any, and the City of an instrument in writing made by the Trustee consenting thereto, 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 Resolution;
- (2) To insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable and are not contrary to or inconsistent with the Resolution as theretofore in effect; or
- (3) To make any other modification or amendment of the Resolution which the Trustee shall in its sole discretion determine will not have a material adverse effect on the interests of Bondholders.

In making any determination under clause (3) of this Section 1002, the Trustee may conclusively rely upon an Opinion of Counsel (which opinion may rely upon the opinions of experts) or a certificate of a Consulting Engineer or a certificate of the financial advisor of the City, or any combination thereof in its discretion.

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**SECTION 1003. Supplemental Resolutions Effective With Consent of Bondholders.** At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article XI, which Supplemental Resolution, upon the filing with the Trustee and the Co-Trustee, if any, of a copy thereof certified by an Authorized Officer of the City and upon compliance with the provisions of said Article XI, shall become fully effective in accordance with its terms as provided in said Article XI; ~~provided, however, that notwithstanding anything to the contrary contained herein, until such time as all Bonds issued prior to the Effective Date no longer shall be Outstanding, the provisions of Article XI of the Original Resolution (and not the provisions of Article XI hereof) shall govern the procedures with respect to the effectiveness of any Supplemental Resolution requiring the consent of the Holders of any Bonds.~~

Bondholders shall be deemed to have provided consent pursuant to this Section 1003 if the offering document for such Bonds expressly describes the Supplemental Resolution and the amendments to this Resolution contained therein and states by virtue of the Bondholders' purchase of such Bonds the Bondholders are deemed to have notice of, and consented to, such Supplemental Resolution and amendments.

Notwithstanding any other provision of this 1003, to the extent permitted by law, at the time of issuance or remarketing of Bonds under this 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 the Series Bonds, may provide consent to amendments to this Resolution pursuant to this Section 1003.

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**SECTION 1004. General Provisions.** 1. The 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. ~~Nothing in this Article X or Article XI contained shall affect or limit the right or obligation of the City to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 704 or the right or obligation of the City to execute and deliver to any Fiduciary any instrument which elsewhere in the Resolution it is provided shall be delivered to said Fiduciary.~~

2. Any Supplemental Resolution referred to and permitted or authorized by Sections 1001 or 1002 may be adopted by the City without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Section. The copy of every Supplemental Resolution when filed with the Trustee shall be accompanied by an Opinion of Counsel stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of the Resolution, is authorized or permitted by the 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 Resolution referred to and permitted or authorized by Sections 1001 or 1002 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 Resolution is authorized or permitted by the provisions of the Resolution.

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

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**SECTION 1101. Mailing and Publication.** 1. Any provision in this Article for the mailing of a notice or other paper to Bondholders shall be fully complied with if it is mailed postage prepaid or provided electronically only (i) to each registered owner of Bonds then Outstanding at such owner's address, if any, appearing upon the registry books of the City and (ii) 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.

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**SECTION 1102. Powers of Amendment.** Any modification or amendment of the Resolution and of the rights and obligations of the City and of the Holders of the Bonds

thereunder, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in Section 1103 (i) of the Holders of not less than a majority in principal amount of the 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 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 Bonds of any specified like Series and maturity remain outstanding the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding 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 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 Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of the Resolution if the same adversely affects or diminishes in any material respect the rights of the Holders of Bonds of such Series. The Trustee may in its discretion determine in reliance upon certificates of the City, the Consulting Engineer, the Financial Advisor to the City and Opinions of Counsel, whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be materially adversely affected by any modification or amendment of the Resolution and any such determination shall be binding and conclusive on the City and all Holders of Bonds. For purposes of this Section, the Holders of any Bonds may include the initial Holders thereof, regardless of whether such Bonds are being held for resale and regardless of whether such Bonds may thereafter have been transferred to subsequent owners. Bonds as used in Article X and this Article XI shall not include Parity Reimbursement Obligations.

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**SECTION 1103. Consent of Bondholders.** The City may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of Section 1102 to take effect when and as provided in this Section. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to affected Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed by the City to affected Bondholders (but failure of any affected Holder of a Bond to receive such copy and request shall not affect the validity of the Supplemental Resolution when consented to as in this Section provided). Such Supplemental Resolution shall not be effective unless and until ~~(i)~~ there shall have been filed with the Trustee (with a copy to the Co-Trustee, if any) (a) the written consents of Holders of the percentages of affected Outstanding Bonds specified in Section 1102 and (b) an Opinion of Counsel stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the City in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the City and enforceable in accordance with its terms, ~~and (ii) a notice shall have been given as hereinafter in this Section 1103 provided.~~ It shall not be necessary that the consents of Holders of Bonds approve the particular form of wording of the proposed modification or amendment or of the proposed Supplemental 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 Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 1202. A certificate or certificates executed by the Trustee and filed with the Co-Trustee, if any, and the City stating that it has examined such proof and that such proof is sufficient in accordance with Section 1202 shall be conclusive that the consents have been given by the Holders of the Bonds described in such certificate or certificates of the Trustee. Any such consent shall be irrevocable and binding upon the Holder of the affected Bonds giving such consent and, anything in Section 1202 to the contrary notwithstanding, upon any subsequent Holder of such affected Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof) ~~unless such consent is revoked in writing by the Holder of such Bonds giving such consent or a subsequent Holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter in this Section 1103 provided for is filed, such revocation. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the Co-Trustee, if any, and the City to the effect that no revocation thereof is on file with the Trustee.~~ At any time after the Holders of the required percentages of affected Bonds shall have filed their consents to the Supplemental Resolution, the Trustee ~~shall~~ may make and file with the Co-Trustee, if any, and the City a written statement that the Holders of such required percentages of affected Bonds have filed such consents. Such written statements shall be conclusive that such consents have been so filed. ~~At any time thereafter, notice stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by the City on a stated date, a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentages of affected Bonds and will be effective as provided in this Section 1103, may be given to Bondholders by the City by mailing such notice to Bondholders (but failure of any affected Holder of a Bond to receive such notice shall not prevent such Supplemental Resolution from becoming effective and binding as in this Section 1103 provided) after the Holders of the required percentages of affected Bonds shall have filed their consents to the Supplemental Resolution and the written statement of the Trustee hereinabove provided for is filed. The City shall file with the Trustee (with a copy to the Co-Trustee, if any) proof of the mailing thereof.~~ A record, consisting of the certificates or statements required or permitted by this Section 1103 to be made by the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the City, the Fiduciaries and the Holders of all Bonds ~~at the expiration of 40 days after~~ immediately upon the filing with the Trustee of the proof of the giving of such last-mentioned notice, ~~except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such 40 day period; provided, however, that any Fiduciary and the City during such 40 day period and any such further period during which any such action or proceeding may be pending shall be entitled in its absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.~~

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**SECTION 1107. Utility Cost Containment Bonds.** Pursuant to Section 163.09, Florida Statutes, notwithstanding anything herein to the contrary, (i) if permitted by applicable law, the City may in the future cause or permit the creation of a property right referred to as a "utility project charge" or the like, levied on customers of the System as a separate charge on the

utility bill, to secure utility cost containment bonds or other indebtedness issued or incurred by an interlocal agency or limited liability company in order to finance or refinance a utility project of the City or the System; (ii) revenues from a utility project charge shall not constitute Revenues of the City or the System for any purpose, including any dedication, commitment, or pledge of revenue, receipts, or other income that the City or the System has made or will make for the security of any of its obligations; and (iii) if the City or the System shall hold the money collected in trust from such utility project charge, such money shall not become Revenues by virtue of possession by the City or the System.

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**SECTION 1201. Defeasance.** 1. If the City shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of all 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 Resolution, then the pledge of the Trust Estate and each separate subaccount in the Debt Service Reserve Account in the Debt Service Fund, and all covenants, agreements and other obligations of the City to the Bondholders, shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall cause an accounting for such period or periods as shall be requested by the City to be prepared and filed with the City and, upon the request of the City, shall execute and deliver to the City all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries shall pay over or deliver to the City all moneys or securities held by them pursuant to the Resolution which are not required for the payment of principal or Redemption Price, if applicable, of and interest on Bonds. If the City shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of any outstanding 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 Resolution, such Bonds shall cease to be entitled to any lien, benefit or security under the Resolution, and all covenants, agreements and obligations of the City to the Holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

2. 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 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 Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in subsection 1 of this Section (a) upon compliance with the provisions of subsection 3 of this Section or (b) if the City shall have satisfied all of the conditions precedent to such Bonds being so deemed to have been paid set forth in the Supplemental Resolution authorizing the Series of which such Bonds are a part.

3. Subject to the provisions of paragraph 4 through paragraph 8 of this Section, any Outstanding 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 (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the City shall have given to the Trustee instructions ~~accepted in writing~~ by the Trustee to give as provided in Article IV notice of redemption of such Bonds (other than Bonds which have been purchased by the Trustee at the direction of the City or

purchased or otherwise acquired by the City and delivered to the Trustee as hereinafter provided prior to the giving of such notice of redemption) on said date, (b) there shall have been deposited with the Trustee either moneys (including moneys withdrawn and deposited pursuant to paragraph 4 of Section 507 and paragraph 5 of Section 508) in an amount which shall be sufficient, or Defeasance Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to redemption or to be paid at maturity within the next succeeding 60 days, the City shall have given the Trustee in form satisfactory to it instructions to give, as soon as practicable, by electronic delivery or first-class mail, postage prepaid, a notice to the Holders of such Bonds that the deposit required by (b) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section 1201 and stating such maturity or redemption date upon which moneys are expected, subject to the provisions of paragraph 8 of this Section 1201, to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds (other than Bonds which have been purchased by the Trustee at the direction of the City or purchased or otherwise acquired by the City and delivered to the Trustee as hereinafter provided prior to the giving of the notice of redemption referred to in clause (a) hereof). Any notice given pursuant to the preceding sentence with respect to Bonds which constitute less than all of the Outstanding Bonds of any maturity within a Series shall specify the letter and number or other distinguishing mark of each such Bond. The Trustee shall, as and to the extent necessary, apply moneys held by it pursuant to this Section 1201 to the retirement of said Bonds in amounts equal to the unsatisfied balances (determined as provided in Section 511) of any Sinking Fund Installments with respect to such Bonds, all in the manner provided in the Resolution.

The Trustee shall, if so directed by the City (i) prior to the maturity date of Bonds deemed to have been paid in accordance with this Section 1201 which are not to be redeemed prior to their maturity date or (ii) prior to the giving of the notice of redemption referred to in clause (a) above with respect to any Bonds deemed to have been paid in accordance with this Section 1201 which are to be redeemed on any date prior to their maturity, apply moneys deposited with the Trustee in respect of such Bonds and redeem or sell Defeasance Securities so deposited with the Trustee and apply the proceeds thereof to the purchase of such Bonds and the Trustee shall immediately thereafter cancel all such Bonds so purchased; provided, however, that the moneys and Defeasance Securities remaining on deposit with the Trustee after the purchase and cancellation of such Bonds shall be sufficient to pay when due the Principal Installment or Redemption Price, if applicable, and interest due or to become due on all Bonds, in respect of which such moneys and Defeasance Securities are being held by the Trustee on or prior to the redemption date or maturity date thereof, as the case may be. If, at any time (i) prior to the maturity date of Bonds deemed to have been paid in accordance with Section 1201 which are not to be redeemed prior to their maturity date or (ii) prior to the giving of the notice of redemption referred to in clause (a) with respect to any Bonds deemed to have been paid in accordance with this Section 1201 which are to be redeemed on any date prior to their maturity, the City shall purchase or otherwise acquire any such Bonds and deliver such Bonds to the Trustee prior to their maturity date or redemption date, as the case may be, the Trustee shall immediately cancel all such Bonds so delivered; such delivery of Bonds to the Trustee shall be accompanied by directions from the City to the Trustee as to the manner in which such Bonds are to be applied against the obligation of the Trustee to pay or redeem Bonds deemed paid in accordance with this Section 1201. The

directions given by the City to the Trustee referred to in the preceding sentences shall also specify the portion, if any, of such Bonds so purchased or delivered and cancelled to be applied against the obligation of the Trustee to pay Bonds deemed paid in accordance with this Section 1201 upon their maturity date or dates and the portion, if any, of such Bonds so purchased or delivered and cancelled to be applied against the obligation of the Trustee to redeem Bonds deemed paid in accordance with this Section 1201 on any date or dates prior to their maturity. In the event that on any date as a result of any purchases, acquisitions and cancellations of Bonds as provided in this Section 1201 the total amount of moneys and Defeasance Securities remaining on deposit with the Trustee under this Section 1201 is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of the remaining Bonds in order to satisfy subclause (b) of this paragraph 2 of Section 1201, the Trustee shall, if requested by the City, pay the amount of such excess to the City free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under this Resolution.

Except as otherwise provided in this paragraph 3 of Section 1201 and in paragraph 4 through paragraph 8 of this Section 1201, neither Defeasance Securities nor moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, (A) to the extent such cash will not be required at any time for such purpose, shall be paid over to the City as received by the Trustee, free and clear of any trust, lien or pledge securing said Bonds or otherwise existing under the Resolution, and (B) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Bonds on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the City, as received by the Trustee, free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under the Resolution.

4. For purposes of determining whether Variable Rate Bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of moneys, or Defeasance Securities and moneys, if any, in accordance with the second sentence of paragraph 3 of this Section 1201, the interest to come due on such Variable Rate Bonds on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the maximum rate permitted by the terms thereof; provided, however, that if on any date, as a result of such Variable Rate Bonds having borne interest at less than such maximum rate for any period, the total amount of moneys and Defeasance Securities on deposit with the Trustee for the payment of interest on such Variable Rate Bonds is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of such Variable Rate Bonds in order to satisfy the second sentence of paragraph 3 of this Section 1201, the Trustee shall, if requested, by the City, pay the amount of such excess to the City free and clear of any trust, lien, pledge or assignment securing the Bonds or otherwise existing under the Resolution.

5. Option Bonds shall be deemed to have been paid in accordance with the second sentence of paragraph 3 of this Section 1201 only if, in addition to satisfying the requirements of clauses (a) and (c) of such sentence, there shall have been deposited with the Trustee moneys (including moneys withdrawn and deposited pursuant to paragraph 4 of Section

507 and paragraph 5 of Section 508) in an amount which shall be sufficient to pay when due the maximum amount of principal of and premium, if any, and interest on such Bonds which could become payable to the Holders of such Bonds upon the exercise of any options provided to the Holders of such Bonds; provided, however, that if, at the time a deposit is made with the Trustee pursuant to paragraph 2 of this Section 1201, the options originally exercisable by the Holder of an Option Bond are no longer exercisable, such Bond shall not be considered an Option Bond for purposes of this paragraph 5. If any portion of the moneys deposited with the Trustee for the payment of the principal of and premium, if any, and interest on Option Bonds is not required for such purpose the Trustee shall, if requested by the City, pay the amount of such excess to the City free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under the Resolution.

6. Defeasance Securities described in clause (f) of the definition thereof may be included in the Defeasance Securities deposited with the Trustee in order to satisfy the requirements of clause (b) of paragraph 2 of Section 1201 only if the determination as to whether the moneys and Defeasance Securities to be deposited with the Trustee in order to satisfy the requirements of such clause (b) would be sufficient to pay when due either on the maturity date thereof or, in the case of any bonds to be redeemed prior to the maturity date thereof, on the redemption date or dates specified in any notice of redemption to be given by the Trustee or in the instructions to give a notice of redemption provided to the Trustee in accordance with paragraph 3 of Section 1201, the principal and Redemption Price, if applicable, and interest on the Bonds which will be deemed to have been paid as provided in paragraph 3 of Section 1201 is made both (i) on the assumption that the Defeasance Securities described in clause (f) were not redeemed at the option of the issuer prior to the maturity date thereof and (ii) on the assumptions that such Defeasance Securities would be redeemed by the issuer thereof at its option on each date on which such option could be exercised, that as of such date or dates interest ceased to accrue on such Defeasance Securities and that the proceeds of such redemption would not be reinvested by the Trustee.

7. In the event that after compliance with the provisions of paragraph 6 of Section 1201 the Defeasance Securities described in clause (f) of the definition thereof are included in the Defeasance Securities deposited with the Trustee in order to satisfy the requirements of clause (b) of paragraph 3 of Section 1201 and any such Defeasance Securities are actually redeemed by the issuer thereof prior to their maturity date, then the Trustee at the direction of the City, provided that the aggregate of the moneys and Defeasance Securities to be held by the Trustee, taking into account any changes in redemption dates or instructions to give notice of redemption given to the Trustee by the City in accordance with paragraph 8 of Section 1201, shall at all times be sufficient to satisfy the requirements of clause (b) of paragraph 3 of Section 1201, shall reinvest the proceeds of such redemption in Defeasance Securities.

8. In the event that after compliance with the provisions of paragraph 6 of Section 1201 the Defeasance Securities described in clause (f) of the definition thereof are included in the Defeasance Securities deposited with the Trustee in order to satisfy the requirements of clause (b) of paragraph 3 of Section 1201, then any notice of redemption to be given by the Trustee and any set of instructions relating to a notice of redemption given to the Trustee may provide, at the option of the City, that any redemption date or dates in respect of all or any portion of the Bonds to be redeemed on such date or dates may at the option of the City be changed to any other permissible redemption date or dates and that redemption dates may be established for any Bonds

deemed to have been paid in accordance with this Section 1201 upon their maturity date or dates at any time prior to the actual giving of any applicable notice of redemption in the event that all or any portion of any Defeasance Securities described in clause (f) of the definition thereof have been called for redemption pursuant to an irrevocable notice of redemption or have been redeemed by the issuer thereof prior to the maturity date thereof; no such change of redemption date or dates or establishment of redemption date or dates may be made unless taking into account such changed redemption date or dates or newly established redemption date or dates the moneys and Defeasance Securities on deposit with the Trustee including any Defeasance Securities deposited with the Trustee in connection with any reinvestment of redemption proceeds in accordance with paragraph 7 of Section 1201 pursuant to clause (b) of paragraph 3 of Section 1201 would be sufficient to pay when due the principal and Redemption Price, if applicable, and interest on all Bonds deemed to have been paid in accordance with paragraph 3 of Section 1201 which have not as yet been paid.

9. Anything in the Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any of the Bonds which remain unclaimed for six years after the date when such 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 Fiduciary at such date, or for six years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Bonds become due and payable, shall, at the written request of the City, be repaid by the Fiduciary to the City, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondholders shall look only to the City for the payment of such Bonds; provided, however, that before being required to make any such payment to the City, the Fiduciary shall, at the expense of the City, ~~cause to be published at least twice, at an interval of not less than 7 days between publications, in an Authorized Newspaper, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the City, comply with any publication requirements required under Florida law as certified by the City.~~

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

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**SECTION 1207. Publication of Notice; Suspension of Publication.** 1. Any publication to be made under the provisions of the Resolution in successive weeks or on successive dates may be made in each instance upon any ~~business day~~ 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 Resolution in the manner herein provided, then such publication in lieu thereof as shall be made with the approval of the Trustee shall constitute a sufficient publication of such notice.

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**SECTION 1211. Representations and Covenants Regarding the Pledge of the Resolution.** The City represents that, pursuant to the Act, the Resolution creates a valid and binding lien on the Trust Estate, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth herein, for the benefit of the Holders of the Bonds and Parity Hedging Contract Obligations, as security for the payment of the Bonds and Parity Hedging Contract Obligations, to the extent set forth herein, enforceable in accordance with the terms hereof.

The City has not heretofore made or granted a pledge or assignment of, lien on or security interest in the Trust Estate that ranks on a parity with or prior to the lien and pledge made or granted in the Resolution. The City shall not hereafter make or grant a pledge or assignment of, lien on or security interest in such Trust Estate that ranks prior to or on a parity with the lien and pledge made or granted in the Resolution, except as expressly permitted thereby.

**SECTION 1301. Effective Date.** This Second Amended and Restated Utilities System Revenue Bond Resolution shall become effective on the Effective Date, upon the satisfaction of the conditions to its effectiveness set forth in Articles X and XI of Original Resolution.

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~~**SECTION 1302. Debt Service Reserve Account under Original Resolution.** On the Effective Date, the Trustee shall, upon the written request of the City, transfer amounts accumulated in the Debt Service Reserve Account in the Debt Service Fund with respect to the Prior Bonds to the Utilities Plant Improvement Fund.~~

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**APPENDIX D**

**DEBT SERVICE REQUIREMENTS ON THE 2017A BONDS, 2017B BONDS AND 2017C BONDS  
(ACCRUAL BASIS)**

<u>Period Ending September 30,</u>	<u>Total Debt Service 2017A Bonds</u>	<u>Total Debt Service 2017B Bonds<sup>(1)</sup></u>	<u>Total Debt Service 2017C Bonds<sup>(2)</sup></u>	<u>Total Debt Service</u>
2018	\$21,135,270.00	\$3,442,500.00	\$1,552,500.00	\$26,130,270.00
2019	25,000,300.00	3,825,000.00	2,300,000.00	31,125,300.00
2020	32,330,300.00	3,825,000.00	2,875,000.00	39,030,300.00
2021	32,296,300.00	3,825,000.00	3,162,500.00	39,283,800.00
2022	32,232,550.00	3,825,000.00	3,162,500.00	39,220,050.00
2023	32,169,050.00	3,825,000.00	3,162,500.00	39,156,550.00
2024	32,289,300.00	3,825,000.00	3,162,500.00	39,276,800.00
2025	32,042,550.00	3,825,000.00	3,162,500.00	39,030,050.00
2026	31,985,050.00	3,825,000.00	3,162,500.00	38,972,550.00
2027	31,926,050.00	3,825,000.00	3,162,500.00	38,913,550.00
2028	32,048,800.00	3,825,000.00	3,162,500.00	39,036,300.00
2029	31,807,300.00	3,825,000.00	3,162,500.00	38,794,800.00
2030	31,747,300.00	3,825,000.00	3,162,500.00	38,734,800.00
2031	31,688,050.00	3,825,000.00	3,162,500.00	38,675,550.00
2032	31,817,300.00	3,825,000.00	3,162,500.00	38,804,800.00
2033	31,573,300.00	3,825,000.00	3,162,500.00	38,560,800.00
2034	31,516,800.00	3,825,000.00	3,162,500.00	38,504,300.00
2035	31,461,300.00	3,825,000.00	3,162,500.00	38,448,800.00
2036	31,594,050.00	3,825,000.00	3,162,500.00	38,581,550.00
2037	31,352,800.00	3,825,000.00	3,162,500.00	38,340,300.00
2038	31,302,800.00	3,825,000.00	3,162,500.00	38,290,300.00
2039	31,249,000.00	3,825,000.00	3,162,500.00	38,236,500.00
2040	6,276,400.00	28,930,000.00	3,162,500.00	38,368,900.00
2041		34,964,822.50	3,162,500.00	38,127,322.50
2042		34,914,432.50	3,162,500.00	38,076,932.50
2043		34,864,662.50	3,162,500.00	38,027,162.50
2044		27,950,002.50	10,077,500.00	38,027,502.50
2045			38,027,337.50	38,027,337.50
2046			38,028,325.00	38,028,325.00
2047			38,027,775.00	38,027,775.00
<b>TOTAL</b>	<b>\$688,841,920.00</b>	<b>\$245,391,420.00</b>	<b>\$203,625,937.50</b>	<b>\$1,137,859,277.50</b>

<sup>(1)</sup> Interest on the 2017B Bonds has been calculated at an assumed rate of 2.55% per annum, an assumed fixed rate payable by the City under the 2017 Series B Swap Transaction. To the extent that amounts payable to the City under the 2017 Series B Swap Transaction during any fiscal year differ from interest payable on the 2017B Bonds during such fiscal year, net debt service on the 2017B Bonds will be greater or less than the respective amount shown in this table for such fiscal year.

<sup>(2)</sup> Interest on the 2017C Bonds has been calculated at an assumed rate of approximately 1.50% for the period November 7, 2017 through October 1, 2018, approximately 2.00% for the period October 1, 2018 through October 1, 2019, approximately 2.50% for the period October 1, 2019 through October 1, 2020 and approximately 2.75% for the period October 1, 2020 through October 1, 2047. See note (4) to the table under "OUTSTANDING DEBT" in the Official Statement to which this APPENDIX D is attached.

**DEBT SERVICE REQUIREMENTS ON OUTSTANDING BONDS  
(GIVING EFFECT TO ISSUANCE OF 2017A BONDS, 2017B  
BONDS AND 2017C BONDS)  
(ACCRUAL BASIS)**

<b>Period Ending September 30,</b>	<b>Total Debt Service on Bonds Outstanding (Without Giving Effect of Issuance of 2017 Bonds)<sup>(1)(2)</sup></b>	<b>Total Debt Service on the 2017 Bonds<sup>(3)</sup></b>	<b>Total Debt Service on Bonds to be Outstanding After Issuance of 2017A Bonds, 2017B Bonds and 2017C Bonds</b>
2018	\$64,310,173.00	\$26,130,270.00	\$90,440,443.00
2019	64,224,204.00	31,125,300.00	95,349,504.00
2020	64,115,707.00	39,030,300.00	103,146,007.00
2021	61,312,587.00	39,283,800.00	100,596,387.00
2022	61,212,898.00	39,220,050.00	100,432,948.00
2023	61,093,412.00	39,156,550.00	100,249,962.00
2024	60,924,786.00	39,276,800.00	100,201,586.00
2025	59,906,210.00	39,030,050.00	98,936,260.00
2026	59,254,546.00	38,972,550.00	98,227,096.00
2027	60,198,749.00	38,913,550.00	99,112,299.00
2028	59,816,038.00	39,036,300.00	98,852,338.00
2029	59,072,077.00	38,794,800.00	97,866,877.00
2030	59,304,352.00	38,734,800.00	98,039,152.00
2031	59,250,877.00	38,675,550.00	97,926,427.00
2032	59,053,967.00	38,804,800.00	97,858,767.00
2033	60,616,709.00	38,560,800.00	99,177,509.00
2034	60,485,983.00	38,504,300.00	98,990,283.00
2035	60,369,225.00	38,448,800.00	98,818,025.00
2036	57,020,056.00	38,581,550.00	95,601,606.00
2037	56,750,051.00	38,340,300.00	95,090,351.00
2038	56,082,672.00	38,290,300.00	94,372,972.00
2039	55,387,517.00	38,236,500.00	93,624,017.00
2040	54,458,949.00	38,368,900.00	92,827,849.00
2041	19,941,150.00	38,127,322.50	58,068,472.50
2042	19,964,638.00	38,076,932.50	58,041,570.50
2043	2,684,750.00	38,027,162.50	40,711,912.50
2044	2,688,000.00	38,027,502.50	40,715,502.50
2045		38,027,337.50	38,027,337.50
2046		38,028,325.00	38,028,325.00
2047		38,027,775.00	38,027,775.00
	\$1,419,500,283.00	\$1,137,859,277.50	\$2,557,359,560.50

[Footnotes appear on following pages]

- 
- (1) Excludes debt service on the CP Notes.
- (2) Debt service on the Outstanding Bonds has been calculated based upon the following assumptions:
- (a) Interest on the 2005 Series B Bonds has been calculated at the actual rates of interest borne by such Bonds. The amounts shown in this table do not take into account amounts payable by and to the City pursuant to the 2005 Series B Swap Transaction. For more information, see "THE SYSTEM – Management’s Discussion of System Operations -- *Interest Rate Swap Transactions*" in the Official Statement to which this APPENDIX D is attached. To the extent that the City makes or receives net payments under the 2005 Series B Swap Transaction during any fiscal year, net debt service on the 2005 Series B Bonds will be greater or less than the respective amount shown in this table for such fiscal year.
  - (b) Interest on the 2005 Series C Bonds has been calculated at an assumed rate of 3.20% per annum, the fixed rate payable by the City under the 2005 Series C Swap Transaction. For more information, see "THE SYSTEM – Management’s Discussion of System Operations - - *Interest Rate Swap Transactions*" in the Official Statement to which this APPENDIX D is attached. To the extent that amounts payable to the City under the 2005 Series C Swap Transaction during any fiscal year differ from interest payable on the 2005 Series C Bonds during such fiscal year, net debt service on the 2005 Series C Bonds will be greater or less than the respective amount shown in this table for such fiscal year.
  - (c) Interest on the 2006 Series A Bonds has been calculated at an assumed rate of 3.224% per annum, the fixed rate payable by the City under the 2006 Series A Swap Transaction. For more information, see "THE SYSTEM – Management’s Discussion of System Operations - - *Interest Rate Swap Transactions*" in the Official Statement to which this APPENDIX D is attached. To the extent that amounts payable to the City under the 2006 Series A Swap Transaction during any fiscal year differ from interest payable on the 2006 Series A Bonds during such fiscal year, net debt service on the 2006 Series A Bonds will be greater or less than the respective amount shown in this table for such fiscal year.
  - (d) Interest on the 2007 Series A Bonds has been calculated at an assumed rate of 3.944% per annum, the fixed rate payable by the City under the 2007 Series A Swap Transaction. For more information, see "THE SYSTEM – Management’s Discussion of System Operations - - *Interest Rate Swap Transactions*" in the Official Statement to which this APPENDIX D is attached. To the extent that amounts payable to the City under the 2007 Series A Swap Transaction during any fiscal year differ from interest payable on the 2007 Series A Bonds during such fiscal year, net debt service on the 2007 Series A Bonds will be greater or less than the respective amount shown in this table for such fiscal year.
  - (e) Interest on the 2008 Series B Bonds has been calculated at an assumed rate of 4.229% per annum, the fixed rate payable by the City under the 2008 Series B Swap Transactions. For more information, see "THE SYSTEM – Management’s Discussion of System Operations - - *Interest Rate Swap Transactions*" in the Official Statement to which this APPENDIX D is attached. To the extent that amounts payable to the City under the 2008 Series B Swap Transactions during any fiscal year differ from interest payable on the 2008 Series B Bonds during such fiscal year, net debt service on the 2008 Series B Bonds will be greater or less than the respective amount shown in this table for such fiscal year.
  - (f) Reflects total interest on the 2009 Series B Bonds and 2010 Series B Bonds, each of which the City has designated as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009, and is not net of the cash subsidy payments that the City expects to receive from the United States Treasury with respect to such Bonds. At the time

of issuance of the 2009 Series B Bonds and 2010 Series B Bonds the subsidy payments on such Bonds was 35%.

- (g) Pursuant to the Sequestration Transparency Act of 2012 (P.L. 112-155), as a consequence of the Joint Select Committee on Deficit Reduction's failure to propose, and Congress' failure to enact, a plan to reduce the federal deficit by \$1.2 trillion (as required by the Budget Control Act of 2011 by January 2, 2013), the President of the United States, in his report to Congress of sequestration for fiscal year 2013, included in such sequestration the payments authorized for direct-pay bonds, such as the 2009 Series B Bonds and 2010 Series B Bonds, issued under the Recovery and Reinvestment Act of 2009. As a result of the sequestration payments to issuers of direct-pay bonds, such as the 2009 Series B Bonds and 2010 Series B Bonds, were subject to a reduction of 7.2% of the amount budgeted for such payment through September 30, 2014, a reduction of 7.3% through September 30, 2015, a reduction of 6.8% through September 30, 2016 and a reduction of 6.9% through September 30, 2017. No assurance can be given that legislative proposals may be introduced or enacted by Congress that would or might apply to, or have an adverse effect upon, the City's receipt of the subsidy payments.
  - (h) Interest on the 2012 Series B Bonds has been calculated at an assumed rate of approximately 3.25% per annum.
- (3) Debt service on the 2017 Bonds has been calculated based upon the following assumptions:
- (a) Interest on the 2017B Bonds has been calculated at an assumed rate of 2.55% per annum, an assumed fixed rate payable by the City under the 2017 Series B Swap Transaction. To the extent that amounts payable to the City under the 2017 Series B Swap Transaction during any fiscal year differ from interest payable on the 2017B Bonds during such fiscal year, net debt service on the 2017B Bonds will be greater or less than the respective amount shown in this table for such fiscal year.
  - (b) Interest on the 2017C Bonds has been calculated at an assumed rate of approximately 1.50% for the period November 7, 2017 through October 1, 2018, approximately 2.00% for the period October 1, 2018 through October 1, 2019, approximately 2.50% for the period October 1, 2019 through October 1, 2020 and approximately 2.75% for the period October 1, 2020 through October 1, 2047. See note (4) to the table under "OUTSTANDING DEBT" in the Official Statement to which this APPENDIX D is attached

**APPENDIX E**

**FORM OF OPINION OF BOND COUNSEL**

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## APPENDIX E

### Form of Series Bond Counsel Opinion

[Date of Delivery]

City of Gainesville, Florida  
Gainesville, Florida

Re: \$415,920,000 City of Gainesville, Florida Utilities System Revenue Bonds, 2017 Series A, \$150,000,000 City of Gainesville, Florida Variable Rate Utilities System Revenue Bonds, 2017 Series B and \$115,000,000 City of Gainesville, Florida Variable Rate Utilities System Utilities System Revenue Bonds, 2017 Series C

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale by the City of Gainesville, Florida (the "Issuer"), of its \$415,920,000 Utilities System Revenue Bonds, 2017 Series A (the "2017 Series A Bonds"), its \$150,000,000 Variable Rate Utilities System Revenue Bonds, 2017 Series B (the "2017 Series B Bonds") and its \$115,000,000 Variable Rate Utilities System Revenue Bonds, 2017 Series C (the "2017 Series C Bonds," and together with the 2017 Series A Bonds and the 2017 Series B Bonds, the "2017 Bonds").

All terms used herein in capitalized form and not otherwise defined herein shall have the same meanings as ascribed to them under Utilities System Revenue Bond Resolution, adopted by the City on June 6, 1983, as amended, restated and supplemented through the date hereof by, inter alia the Amended and Restated Utilities System Revenue Bond Resolution, adopted by the City on January 30, 2003, as amended including as amended and restated through the date hereof, inter alia by the Amended and Restated Utilities System Revenue Bond Resolution adopted by the City on January 30, 2003, as further amended, including as amended by Resolution No. 170405 adopted by the City on September 21, 2017 (collectively, the "Master Resolution") and as supplemented, including particularly as supplemented by the Twenty-Seventh Supplemental Utilities System Revenue Bond Resolution No. 170394 with respect to the 2017 Series A Bonds, the Twenty-Eighth Supplemental Utilities System Revenue Bond Resolution No. 170403 with respect to the 2017 Series B Bonds, and the Twenty-Ninth Supplemental Utilities System Revenue Bond Resolution No. 170404 with respect to the 2017 Series C Bonds, each adopted by the City on September 21, 2017 (collectively, with the Master Resolution, the "Bond Resolution").

The 2017 Bonds are dated the date of their issuance and delivery, have been issued in fully registered form, finally mature on October 1, 2047, bear interest from the dates thereof at such rates set forth therein and are subject to redemption prior to maturity in the manner and upon the terms and conditions set forth therein and in the Bond Resolution.

The 2017 Bonds have been issued to finance the 2017 Series A Project, and to pay costs of issuance of the 2017 Bonds.

Pursuant to the Master Resolution, the principal of, premium, if any, and interest on the 2017 Bonds shall be payable from and secured by a lien upon and pledge of the Trust Estate (the "Pledged Funds") on a parity with the Outstanding Bonds and Parity Hedging Contract Obligations (collectively, the "Parity Indebtedness").

In no event shall the 2017 Bonds or any interest or premium thereon be payable from the ad valorem tax revenues of the Issuer. The 2017 Bonds and the obligations evidenced thereby do not constitute a general liability or obligation of the Issuer or the State of Florida or any political subdivision or agency thereof, or a pledge of the faith and credit or taxing power of the Issuer, the State of Florida or any political subdivision or agency thereof. In no event shall the 2017 Bonds or the interest or premium thereon be payable out of any funds or property other than those of the Issuer and then only to the extent of the Pledged Funds in the manner and to the extent expressly provided in the Master Resolution.

The description of the 2017 Bonds in this opinion and other statements concerning the terms and conditions of the issuance of the 2017 Bonds do not purport to set forth all of the terms and conditions of the 2017 Bonds or of any other document relating to the issuance of the 2017 Bonds, but are intended only to identify the 2017 Bonds and to describe briefly certain features thereof. This opinion shall not be deemed or treated as an offering circular, prospectus or official statement and is not intended in any way to be a disclosure document for use in connection with the sale or delivery of the 2017 Bonds.

In rendering the opinions set forth below, we have examined certified copies of the Bond Resolution and various other agreements, certificates and opinions delivered in connection therewith, and are relying on the covenants, representations and agreements of the Issuer and certain reports contained or referenced therein, including, without limitation, the Certificate Relating to Tax, Arbitrage and Other Matters dated November 7, 2017 of the Issuer and the covenant of the Issuer to comply with the applicable requirements contained in Section 103 and Part IV of Subchapter B of Chapter 1 of Subtitle A of the Internal Revenue Code of 1986, as



amended (the "Code"), and the applicable regulations thereunder, to the extent necessary to preserve the exclusion of interest on the 2017 Bonds from gross income for federal income tax purposes.

We have also examined certified copies of the proceedings of the Issuer, and other information submitted to us relative to the issuance and sale by the Issuer of the 2017 Bonds. In addition, we have examined and relied upon the opinions of Nicolle M. Shalley, Esq. City Attorney, as to the due organization and valid existence of the Issuer, the due adoption of the Bond Resolution and the due authorization, execution and delivery of the 2017 Bonds and all other documents associated with the issuance thereof and the compliance of the Issuer with all conditions precedent to the issuance of the 2017 Bonds. We have also relied on such other agreements, certificates, documents and opinions, including certificates and representations of public officials and other officers and representatives of the various other parties participating in this transaction, as we have deemed relevant and necessary in connection with the opinions expressed below. We have not undertaken an independent audit, examination, investigation or inspection of the matters described, contained or referenced in such agreements, documents, certificates, representations and opinions, and have relied solely on the facts, estimates and circumstances described and set forth therein.

In our examination of the foregoing, we have assumed the genuineness of signatures on all documents and instruments, the authenticity of documents submitted as originals and the conformity to originals of documents submitted as copies.

The opinions set forth below are expressly limited to, and we opine only with respect to, the laws of the State of Florida and the federal income tax laws of the United States of America.

Based upon and subject to the foregoing, we are of the opinion that, as of the date hereof and under existing law:

- (i) The Issuer is a political subdivision of the State of Florida, duly organized and validly existing under the laws of the State of Florida.
- (ii) The Bond Resolution constitutes a valid and legally binding obligation of the Issuer, enforceable in accordance with the laws of the State of Florida.

(iii) The 2017 Bonds are valid and legally binding special obligations of the Issuer, enforceable in accordance with the laws of the State of Florida and the terms of the Bond Resolution and are payable solely from and secured solely by a lien upon and pledge of the Pledged Funds, in the manner and to the extent provided in, and subject to the provisions of, the Bond Resolution, on a parity with the Parity Indebtedness and any additional Bonds or Parity Hedging Contract Obligations currently Outstanding or hereafter issued or incurred.

(iv) The interest on the 2017 Bonds (which is defined to include any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference for purposes of the federal alternative minimum tax; however, it should be noted that with respect to certain corporations (as defined for federal income tax purposes), such interest will be taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax imposed on such corporations.

The opinions expressed in the preceding paragraph are conditioned upon compliance by the Issuer with its covenants relating to certain arbitrage rebate and other tax requirements contained in Section 103 and Part IV of Subchapter B of Chapter 1 of Subtitle A of the Code (including, without limitation, its covenants not to use any proceeds of the 2017 Bonds in a manner that would cause the 2017 Bonds to be classified as private activity bonds under Sections 141(a) and 141(d) of the Code and to comply with the requirements contained in Section 148 of the Code), to the extent necessary to preserve the exclusion of interest on the 2017 Bonds from gross income for federal income tax purposes. Failure of the Issuer to comply with such requirements could cause the interest on the 2017 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2017 Bonds. Other provisions of the Code may give rise to adverse federal income tax consequences to particular bondholders. The scope of this opinion is limited to matters addressed above and no opinion is expressed hereby regarding other federal income tax consequences that may arise due to ownership of the 2017 Bonds. We express no opinion regarding any state tax consequences of acquiring, carrying, owning or disposing of the 2017 Bonds. Owners of the 2017 Bonds should consult their tax advisors regarding any state tax consequences of owning the 2017 Bonds.

Our opinions expressed herein are predicated upon current facts and circumstances, and upon present laws and interpretations thereof, and we assume no affirmative obligation to update the opinions expressed herein if such facts or circumstances, or laws or interpretations thereof, change after the date hereof, even if such changes come to our attention. All opinions as to legal obligations of the Issuer set forth above are subject to and limited by (a) bankruptcy, insolvency, reorganization, moratorium or similar laws, in each case relating to or affecting the enforcement of creditors' rights, (b) applicable laws or equitable principles that may affect remedies or injunctive or other equitable relief, and (c) judicial discretion which may be exercised in applicable cases to adversely affect the enforcement of certain rights or remedies.

The scope of our engagement in relation to the issuance of the 2017 Bonds has been limited solely to the examination of facts and law incident to rendering the opinions expressed herein. We have not been engaged, nor have we undertaken, to confirm or verify and therefore express no opinion as to the accuracy, completeness, fairness or sufficiency of the Official Statement or any exhibits or appendices thereto or any other offering material relating to the 2017 Bonds and therefore express no opinion in regard thereto, except as otherwise set forth in our separate opinions to the underwriters and the Issuer each dated as of the date hereof. In addition, we have not been engaged to and therefore express no opinion herein regarding the perfection or priority of the lien on the Pledged Funds created by the Master Resolution or as to the compliance by the Issuer, the underwriters with any federal or state registration requirements or securities laws, regulations or rulings with respect to the offer, sale or distribution of the 2017 Bonds.

Our opinion is limited solely to the matters stated herein, and no opinion is to be implied or is intended beyond the opinions expressly stated herein.

Sincerely yours,

HOLLAND & KNIGHT LLP

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**APPENDIX F**

**FORM OF CONTINUING DISCLOSURE CERTIFICATE**

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## APPENDIX F

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Gainesville, Florida (the "Issuer") in connection with the issuance of its \$415,920,000 Utilities System Revenue Bonds, 2017 Series A (the "Bonds"). The Bonds are being issued pursuant to the Amended and Restated Utilities System Revenue Bond Resolution adopted by the City on June 6, 1983, as amended, restated and supplemented, including as supplemented by the Twenty-Seventh Supplemental Utilities System Revenue Bond Resolution adopted by the City on September 21, 2017 (collectively, the "Resolution").

SECTION 1. PURPOSE OF THE DISCLOSURE CERTIFICATE. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the holders and Beneficial Owners (defined below) of the Bonds and in order to assist the Participating Underwriters in complying with the continuing disclosure requirements of the Rule (defined below).

SECTION 2. DEFINITIONS. In addition to the definitions set forth in the Resolution which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined herein, the following capitalized terms shall have the following meanings:

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

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean initially Digital Assurance Certification, LLC, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access web portal of the MSRB, located at <http://www.emma.msrb.org>.

"Event of Bankruptcy" shall be considered to have occurred when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

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

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Obligated Person" shall mean any person, including the Issuer, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity or credit facilities).

"Participating Underwriters" shall mean the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each entity authorized and approved by the Securities and Exchange Commission from time to time to act as a repository for purposes of complying with the Rule. As of the date hereof, the Repository recognized by the Securities and Exchange Commission for such purpose is the MSRB, which currently accepts continuing disclosure submissions through EMMA.

"Rule" shall mean the continuing disclosure requirements of Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of Florida.

### SECTION 3. PROVISION OF ANNUAL REPORTS.

(a) The Issuer shall, or shall cause the Dissemination Agent to, by not later than April 30<sup>th</sup> following the end of the prior fiscal year, beginning with the fiscal year ending September 30, 2017 with respect to the report for the 2016-2017 fiscal year, provide to any Repository in electronic format as prescribed by such Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date provided, further, in such event unaudited financial statements are required to be delivered as part of the Annual Report in accordance with Section 4(a) below. If the Issuer's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5.

(b) If on the fifteenth (15<sup>th</sup>) day prior to the annual filing date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer by telephone and in writing (which may be by e-mail) to remind the Issuer of its undertaking to provide the Annual Report pursuant to Section 3(a). Upon such reminder, the Issuer shall either (i) provide the Dissemination Agent with an electronic copy of the Annual Report no later than two (2) business days prior to the annual filing date, or (ii) instruct the Dissemination Agent in writing that the Issuer will not be able to file the Annual Report within the time required under this Agreement, state the date by which the Annual Report for such year will be provided and instruct the Dissemination Agent that a failure to file has occurred and to immediately send a notice to the Repository in substantially the form attached as Exhibit A, accompanied by a cover sheet completed by the Dissemination Agent in the form set forth in Exhibit B.



- (c) The Dissemination Agent shall:
- (i) determine each year prior to the date for providing the Annual Report the name and address of any Repository;
  - (ii) if the Dissemination Agent is other than the Issuer, file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing any Repository to which it was provided; and
  - (iii) if the Dissemination Agent has not received an Annual Report by 6:00 p.m. Eastern time on the annual filing date (or, if such annual filing date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a failure to file shall have occurred and the Issuer irrevocably directs the Dissemination Agent to immediately send a notice to the Repository in substantially the form attached as Exhibit A without reference to the anticipated filing date for the Annual Report, accompanied by a cover sheet completed by the Dissemination Agent in the form set forth in Exhibit B.

SECTION 4. CONTENT OF ANNUAL REPORTS. The Annual Report shall contain or include by reference the following:

(a) the audited financial statements of the Issuer for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Issuer's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement dated October 25, 2017 (the "Official Statement"), and the audited financial statements shall be filed in the same manner as the Annual Report when they become available; and

(b) updates to the financial information and operating data contained in "THE SYSTEM" section of the Official Statement under the captions entitled:

- (i) "The Electric System – Customers", "- Retail and Wholesale Energy Sales", "- Generating Facilities" and "- Capital Improvement Program";
- (ii) "The Natural Gas System – Customers" and "- Capital Improvement Program";
- (iii) "The Water System – Customers" and "- Capital Improvement Program";
- (iv) "The Wastewater System – Customers" and "- Capital Improvement Program";
- (v) "Rates"; and
- (vi) "Summary of Combined Net Revenues" (fiscal year only).

The information provided under Section 4(b) may be included by specific reference to documents, including official statements of debt issues of the Issuer or related public entities, which are available to the public on the Repository's Internet Web site or filed with the Securities and Exchange Commission.

The Issuer reserves the right to modify from time to time the specific types of information provided in its Annual Report or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the Issuer; provided that the Issuer agrees that any such modification will be done in a manner consistent with the Rule.

#### SECTION 5. REPORTING OF SIGNIFICANT EVENTS.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds. Such notice shall be given in a timely manner not in excess of ten (10) business days after the occurrence of the event, with the exception of the event described in number 15 below, which notice shall be given in a timely manner:

1. principal and interest payment delinquencies;
2. non-payment related defaults, if material;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers, or their failure to perform;
6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
7. modifications to rights of the holders of the Bonds, if material;
8. Bond calls, if material, and tender offers;
9. defeasances;
10. release, substitution, or sale of property securing repayment of the Bonds, if material;
11. ratings changes;
12. an Event of Bankruptcy or similar event of an Obligated Person;
13. the consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

14. appointment of a successor or additional trustee or the change of name of a trustee, if material; and
15. notice of any failure on the part of the Issuer to meet the requirements of Section 3 hereof.

(b) The notice required to be given in paragraph 5(a) above shall be filed with any Repository, in electronic format as prescribed by such Repository.

SECTION 6. IDENTIFYING INFORMATION. In accordance with the Rule, all disclosure filings submitted pursuant to this Disclosure Certificate to any Repository must be accompanied by identifying information as prescribed by the Repository. Such information may include, but not be limited to:

- (a) the category of information being provided;
- (b) the period covered by any annual financial information, financial statement or other financial information or operation data;
- (c) the issues or specific securities to which such documents are related (including CUSIPs, issuer name, state, issue description/securities name, dated date, maturity date, and/or coupon rate);
- (d) the name of any Obligated Person other than the Issuer;
- (e) the name and date of the document being submitted; and
- (f) contact information for the submitter.

SECTION 7. TERMINATION OF REPORTING OBLIGATION. The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds, so long as there is no remaining liability of the Issuer, or if the Rule is repealed or no longer in effect. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 8. DISSEMINATION AGENT. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be Digital Assurance Certification, LLC.

SECTION 9. AMENDMENT. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate provided that the following conditions are satisfied:

- (a) The amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Issuer, or the type of business conducted;
- (b) The undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment does (i) does not materially impair the interests of the holders, as determined either by parties unaffiliated with the Issuer (such as the trustee or bond counsel), or by approving vote of bondholders pursuant to the terms of the governing instrument at the time of the amendment.

In the event of any amendment of this Disclosure Certificate, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

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

SECTION 11. DEFAULT. The continuing disclosure obligations of the Issuer set forth herein constitute a contract with the holders of the Bonds. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate, any holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate; provided, however, the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with the provisions of this Disclosure Certificate shall be an action to compel performance. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution.

SECTION 12. DUTIES, IMMUNITIES AND LIABILITIES OF DISSEMINATION AGENT. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 13. BENEFICIARIES. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriters and holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated as of November 7, 2017

CITY OF GAINESVILLE, FLORIDA

By: \_\_\_\_\_  
Chief Financial Officer,  
Gainesville Regional Utilities

**EXHIBIT A**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: City of Gainesville, Florida  
Name of Bond Issue: Utilities System Revenue Bonds, 2017 Series A  
Date of Issuance: November 7, 2017

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate between the Issuer and Digital Assurance Certification, L.L.C., as Dissemination Agent. The Issuer has notified the Dissemination Agent that it anticipates that the Annual Report will be filed by\_\_\_\_\_.

Dated:\_\_\_\_\_

Digital Assurance Certification, L.L.C., as Dissemination Agent, on behalf of the Issuer

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

Date: \_\_\_\_\_

**EXHIBIT B**  
**EVENT NOTICE COVER SHEET**

This cover sheet and accompanying "event notice" will be sent to the MSRB, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or Other Obligated Person's Name:

\_\_\_\_\_

Issuer's Six-Digit CUSIP Number:

\_\_\_\_\_

\_\_\_\_\_

or Nine-Digit CUSIP Number(s) of the bonds to which this event notice relates:

\_\_\_\_\_

Number of pages attached: \_\_\_\_\_

\_\_\_\_ Description of Notice Events (Check One):

1. \_\_\_\_\_ "Principal and interest payment delinquencies;"
2. \_\_\_\_\_ "Non-Payment related defaults, if material;"
3. \_\_\_\_\_ "Unscheduled draws on debt service reserves reflecting financial difficulties;"
4. \_\_\_\_\_ "Unscheduled draws on credit enhancements reflecting financial difficulties;"
5. \_\_\_\_\_ "Substitution of credit or liquidity providers, or their failure to perform;"
6. \_\_\_\_\_ "Adverse tax opinions, IRS notices or events affecting the tax status of the security;"
7. \_\_\_\_\_ "Modifications to rights of securities holders, if material;"
8. \_\_\_\_\_ "Bond calls, if material;"
9. \_\_\_\_\_ "Defeasances;"
10. \_\_\_\_\_ "Release, substitution, or sale of property securing repayment of the securities, if material;"
11. \_\_\_\_\_ "Rating changes;"
12. \_\_\_\_\_ "Tender offers;"
13. \_\_\_\_\_ "Bankruptcy, insolvency, receivership or similar event of the obligated person;"
14. \_\_\_\_\_ "Merger, consolidation, or acquisition of the obligated person, if material;" and
15. \_\_\_\_\_ "Appointment of a successor or additional trustee, or the change of name of a trustee, if material."

\_\_\_\_ Failure to provide annual financial information as required.

\_\_\_\_ Change in fiscal year of the Issuer.

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

\_\_\_\_\_

Name: \_\_\_\_\_

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

Digital Assurance Certification, L.L.C.  
390 N. Orange Avenue  
Suite 1750  
Orlando, FL 32801  
407-515-1100

Date: \_\_\_\_\_

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