

## COMMERCIAL PAPER OFFERING MEMORANDUM DATED MARCH 8, 2017

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

### City of Gainesville, Florida

#### Utilities System

#### Commercial Paper Notes

**Not to Exceed**

**\$85,000,000**

**Series C**

**Not to Exceed**

**\$25,000,000**

**Series D**

**(Federally Taxable)**



**RATINGS: See "RATINGS" herein**

This Offering Memorandum is being furnished in connection with the sale from time to time by the City of Gainesville, Florida (the "City") of its Utilities System Commercial Paper Notes, Series C in an aggregate principal amount of not to exceed \$85,000,000 (the "Series C Notes") and its Utilities System Commercial Paper Notes, Series D (Federally Taxable) in an aggregate principal amount of not to exceed \$25,000,000 (the "Series D Notes," and together with the Series C Notes, the "CP Notes").

Liquidity support for the Series C Notes is provided by Bank of America, N.A. (the "Series C Bank") pursuant to a Credit Agreement dated as of November 30, 2015 (the "Series C Credit Agreement"), pursuant to which the Series C Bank has agreed to make revolving credit loans up to the commitment amount of \$85,000,000. The Series C Credit Agreement will expire on November 30, 2018.

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

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

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

The CP Notes shall be direct and special obligations of the City payable from and secured by amounts in the Subordinated Indebtedness Fund (as defined in the Senior Bond Resolution and the Subordinated Bond Resolution) subject, however, to (i) the security interest in and pledge and assignment of the Trust Estate created by the Senior Bond Resolution as security for the Senior Lien

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

THE CP NOTES SHALL NOT CONSTITUTE A GENERAL INDEBTEDNESS OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION OR LIMITATION OF INDEBTEDNESS. NO HOLDER OF THE CP NOTES SHALL EVER HAVE THE RIGHT, DIRECTLY OR INDIRECTLY, TO REQUIRE OR COMPEL THE EXERCISE OF THE AD VALOREM TAXING POWER OF THE CITY FOR THE PAYMENT OF THE PRINCIPAL OF, AND INTEREST ON, THE CP NOTES OR THE MAKING OF ANY PAYMENTS UNDER THE SERIES C CREDIT AGREEMENT OR THE SERIES D CREDIT AGREEMENT. THE CP NOTES AND THE OBLIGATIONS EVIDENCED THEREBY SHALL NOT CONSTITUTE A LIEN ON ANY PROPERTY OF OR IN THE CITY, OTHER THAN THE SUBORDINATED INDEBTEDNESS FUND AND THE APPLICABLE CP NOTE ACCOUNT AND CONSTRUCTION FUND, IF ANY, ESTABLISHED PURSUANT TO THE SUBORDINATED BOND RESOLUTION.

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

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

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

**CITY OF GAINESVILLE, FLORIDA**

**Not to Exceed  
\$85,000,000  
UTILITIES SYSTEM  
COMMERCIAL PAPER NOTES,  
SERIES C**

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

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

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

## **CITY OF GAINESVILLE, FLORIDA**

### **CITY OFFICIALS**

Lauren Poe .....Mayor  
Harvey M. Budd ..... At Large, Commissioner  
Craig E. Carter .....Commissioner  
Todd N. Chase .....Commissioner  
Charles E. Goston .....Commissioner  
Adrian Hayes-Santos .....Commissioner  
Helen K. Warren ..... At Large, Commissioner

### **CHARTER OFFICERS**

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

### **UTILITIES SYSTEM**

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

### **BOND COUNSEL**

Holland & Knight LLP  
Lakeland, Florida

### **DISCLOSURE COUNSEL**

Bryant Miller Olive P.A.  
Tampa, Florida

### **FINANCIAL ADVISOR**

Public Financial Management, Inc.  
Charlotte, North Carolina

---

\*Also a Charter Officer.



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

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

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

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

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

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

## TABLE OF CONTENTS

THE CITY AND THE SYSTEM.....	1
THE CP NOTES .....	1
Authority for Issuance .....	1
Issuing Agent .....	2
Dealer .....	2
Terms of CP Notes.....	3
No Early Redemption .....	3
Book-Entry Only System .....	3
SECURITY FOR THE CP NOTES.....	6
General .....	6
Series C Bank and Series C Credit Agreement .....	6
Series D Bank and Series D Credit Agreement.....	7
CP Note Payment Accounts .....	8
Subordinated Indebtedness Fund .....	8
Senior Lien Bonds .....	8
Additional Subordinated Bonds .....	9
Rate Covenants .....	10
THE SUBORDINATED BOND RESOLUTION .....	10
ADDITIONAL AVAILABLE INFORMATION .....	10
LEGAL MATTERS.....	11
TAX MATTERS .....	12
Original Series C Notes and Series D Notes .....	12
Tax Exemption of Additional Series C Notes .....	13
FLORIDA SECURITIES LAWS.....	15
RATINGS .....	16
LITIGATION .....	16
CONTINGENT FEES .....	19
INDEPENDENT AUDITORS.....	19
FINANCIAL ADVISOR.....	19
ACCURACY AND COMPLETENESS OF OFFERING MEMORANDUM .....	20
CERTIFICATION OF OFFERING MEMORANDUM .....	20
APPENDIX A - The City	
APPENDIX B - The System	
APPENDIX C - Form of Holland & Knight Opinion (Additional Series C Notes)	
APPENDIX D - Information Regarding Series C Bank and the Series C Credit Agreement	
APPENDIX E - Information Regarding Series D Bank and the Series D Credit Agreement	
APPENDIX F - Table of Outstanding Debt	

## **THE CITY AND THE SYSTEM**

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

## **THE CP NOTES**

### **Authority for Issuance**

The City of Gainesville, Florida Utilities System Commercial Paper Notes, Series C in an aggregate principal amount of not to exceed \$85,000,000 (the "Series C Notes") are issued under and pursuant to a resolution adopted by the City on October 5, 1992 entitled "Second Supplemental Subordinated Utilities System Revenue Bond Resolution," as heretofore amended (the "Second Supplemental Subordinated Bond Resolution"). The City of Gainesville, Florida Utilities System Commercial Paper Notes, Series D (Federally Taxable) in an aggregate principal amount of not to exceed \$25,000,000 (the "Series D Notes," and together with the Series C Notes, the "CP Notes") are issued under and pursuant to a resolution adopted by the City on June 15, 2000 entitled "Fourth Supplemental Subordinated Utilities System Revenue Bond Resolution," as heretofore amended (the "Fourth Supplemental Subordinated Bond Resolution"). The Second Supplemental Subordinated Bond Resolution and the Fourth Supplemental Subordinated Bond Resolution are supplemental to the Amended and Restated Subordinated Utilities System Revenue Bond Resolution, adopted by the City on December 8, 2003 (as supplemented and amended, the "Subordinated Bond Resolution"), which amended and restated in its entirety the Subordinated Utilities System Revenue Bond Resolution, adopted January 26, 1989, as amended and supplemented. The Subordinated Bond Resolution authorizes the issuance by the City from time to time of its Subordinated Utilities System Revenue Bonds (the "Subordinated Bonds"). The CP Notes constitute Subordinated Bonds within the meaning of the Subordinated Bond Resolution.

The Subordinated Bond Resolution was adopted pursuant to, and supplements the Amended and Restated Utilities System Revenue Bond Resolution, adopted by the City on January 30, 2003, as supplemented and amended (the "Senior Bond Resolution"), which authorizes the issuance by the City from time to time of its bonds, notes or other evidences of indebtedness, as described in the Senior Bond Resolution, which have a lien on the Revenues that is senior to the hereinafter defined Subordinated Indebtedness (the "Senior Lien Bonds") and subordinated indebtedness payable from amounts on deposit in the Subordinated Indebtedness Fund created thereunder (the "Subordinated Indebtedness"). The CP Notes constitute "Subordinated Indebtedness" within the meaning of the Senior Bond Resolution, and are junior and subordinate in all respects to the Senior Lien Bonds issued under the Senior Bond Resolution. See "SECURITY FOR THE CP NOTES" and "APPENDIX F – Table of Outstanding Debt" attached hereto.

The Second Supplemental Subordinated Bond Resolution currently permits the issuance of not to exceed \$85,000,000 in aggregate principal amount of Series C Notes at any one time outstanding for purposes of (i) paying the principal of, and interest on, maturing Series C Notes, (ii) repaying loans under the Series C Credit Agreement (hereinafter defined) and (iii) financing the costs of acquisition and construction of the System. On April 28, 2008 the City authorized the issuance of \$62,000,000 in aggregate principal amount of Series C Notes. On December 1, 2016, the City adopted Resolution No. 160562

authorizing the issuance of an additional \$20,250,000 in principal amount of the Series C Notes for purposes of financing the costs of acquisition and construction of improvements to the System (the "Project"). After the issuance of an additional \$5,000,000 of Series C Notes anticipated to be issued on March 14, 2017 for the purpose of financing the Project, there will be \$50,900,000 in aggregate principal amount of Series C Notes outstanding.

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

The City also has issued its Utilities System Subordinated Bank Bond, Series A (the "Series A Bank Bond") under the Subordinated Bond Resolution in order to evidence any loans made by Bank of America, N.A. (the "Series C Bank") pursuant to a Credit Agreement dated as of November 30, 2015 (the "Series C Credit Agreement"), pursuant to which the Series C Bank has agreed to make revolving credit loans with respect to the Series C Notes up to the commitment amount of \$85,000,000 and its Utilities System Subordinated Bank Bond, Series B (the "Series B Bank Bond") under the Subordinated Bond Resolution in order to evidence any loans made by State Street Bank and Trust Company (the "Series D Bank") pursuant to a Credit Agreement dated as of August 1, 2014 (the "Series D Credit Agreement"), pursuant to which the Series D Bank has agreed to make revolving credit loans with respect to the Series D Notes up to the commitment amount of \$25,000,000. Any amounts outstanding from time to time under the Series A Bank Bond or Series B Bank Bond to evidence loans under the Series C Credit Agreement or the Series D Credit Agreement, respectively, are secured on a parity with the CP Notes with respect to the Revenues (as hereinafter defined) of the System. No amount is outstanding under the Series A Bank Bond or Series B Bank Bond as of the date of this Offering Memorandum. See "SECURITY FOR THE CP NOTES – Series C Credit Agreement" and "- Series D Credit Agreement" herein.

### **Issuing Agent**

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

### **Dealer**

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

## **Terms of CP Notes**

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

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

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

## **No Early Redemption**

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

## **Book-Entry Only System**

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

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

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE CP NOTES, AS NOMINEE OF DTC, CERTAIN REFERENCES IN THIS OFFERING MEMORANDUM TO THE CP NOTEHOLDERS OR REGISTERED OWNERS OF THE CP NOTES SHALL MEAN CEDE & CO. AND WILL NOT MEAN THE BENEFICIAL OWNERS OF THE CP NOTES. THE DESCRIPTION WHICH FOLLOWS OF THE PROCEDURES AND RECORD KEEPING WITH RESPECT TO BENEFICIAL OWNERSHIP INTERESTS IN THE CP NOTES, PAYMENT OF INTEREST AND PRINCIPAL ON THE CP NOTES TO DIRECT PARTICIPANTS (AS HEREINAFTER DEFINED) OR BENEFICIAL OWNERS OF THE CP NOTES, CONFIRMATION AND TRANSFER OF BENEFICIAL OWNERSHIP INTERESTS IN THE CP NOTES, AND OTHER RELATED TRANSACTIONS BY AND BETWEEN DTC, THE DIRECT PARTICIPANTS AND BENEFICIAL OWNERS OF THE CP NOTES IS BASED SOLELY ON INFORMATION

FURNISHED BY DTC. ACCORDINGLY, THE CITY NEITHER MAKES NOR CAN MAKE ANY REPRESENTATIONS CONCERNING THESE MATTERS.

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

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

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

To facilitate subsequent transfers, all CP Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the CP Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial

ownership. DTC has no knowledge of the actual Beneficial Owners of the CP Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such CP Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

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

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

## SECURITY FOR THE CP NOTES

### General

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

THE CP NOTES SHALL NOT CONSTITUTE A GENERAL INDEBTEDNESS OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION OR LIMITATION OF INDEBTEDNESS. NO HOLDER OF THE CP NOTES SHALL EVER HAVE THE RIGHT, DIRECTLY OR INDIRECTLY, TO REQUIRE OR COMPEL THE EXERCISE OF THE AD VALOREM TAXING POWER OF THE CITY FOR THE PAYMENT OF THE PRINCIPAL OF, AND INTEREST ON, THE CP NOTES OR THE MAKING OF ANY PAYMENTS UNDER THE SERIES C CREDIT AGREEMENT OR THE SERIES D CREDIT AGREEMENT. THE CP NOTES AND THE OBLIGATIONS EVIDENCED THEREBY DO NOT CONSTITUTE A LIEN ON ANY PROPERTY OF OR IN THE CITY, OTHER THAN THE APPLICABLE CP NOTE PAYMENT ACCOUNT AND CONSTRUCTION FUND, IF ANY, AND THE SUBORDINATED INDEBTEDNESS FUND.

### Series C Bank and Series C Credit Agreement

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

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



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

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

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

Liquidity support for the Series D Notes is provided by the Series D Bank pursuant to the Series D Credit Agreement, pursuant to which the Series D Bank is obligated, subject to the satisfaction of the conditions set forth therein and so long as certain events of default on the part of the City thereunder have not occurred, to advance the amount of each loan requested on behalf of the City for the purpose of paying the principal amount of maturing Series D Notes, to the extent other moneys are not available therefor, until the Termination Date (currently August 28, 2017, which date can be extended by agreement of the City and the Series D Bank) or such earlier date as the Series D Credit Agreement, by its terms, may terminate or the Series D Bank's lending commitment thereunder shall be suspended. The Series D Credit Agreement provides for same day availability of funds up to a maximum of \$25,000,000. The City has issued the Series B Bank Bond to evidence any loans made by the Series D Bank under the Series D Credit Agreement. The Series B Bank Bond has been issued under the Subordinated Bond Resolution and payment thereon is secured on a parity with the CP Notes and other indebtedness issued and outstanding under the Subordinated Bond Resolution with respect to the Revenues of the System.

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

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

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

## **CP Note Payment Accounts**

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

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

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

## **Subordinated Indebtedness Fund**

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

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

## **Senior Lien Bonds**

Pursuant to the Senior Bond Resolution, the City is authorized to issue Senior Lien Bonds secured by a pledge and assignment of (i) the proceeds of the sale of the Senior Lien Bonds, (ii) the Revenues derived by the City from the operation of the System and (iii) all funds established by the Senior Bond Resolution (other than the Debt Service Reserve Account in the Debt Service Fund established pursuant

to the Senior Bond Resolution which will secure only certain designated series of Senior Lien Bonds and any fund which may be established pursuant to the Senior Bond Resolution for decommissioning and certain other specified purposes), including the investments and income, if any, thereof (collectively, the "Trust Estate"). See "APPENDIX F – Table of Outstanding Debt" attached hereto for a description of Senior Lien Bonds currently outstanding under the Senior Bond Resolution. Reference is made to the Senior Bond Resolution, which is hereby incorporated by reference as if fully stated herein, for a review of the complete requirements for the issuance of additional Senior Lien Bonds and refunding Senior Lien Bonds. See "ADDITIONAL AVAILABLE INFORMATION" herein to access a full copy of the Senior Bond Resolution.

### **Additional Subordinated Bonds**

The City may issue additional Subordinated Bonds under the Subordinated Bond Resolution on a parity with the lien of the CP Notes on the Subordinated Indebtedness Fund that are not Refunding Subordinated Bonds, upon satisfaction of certain requirements, including, but not limited to, the following:

(I) delivery of a certificate of an authorized officer of the City stating that the Net Revenues of the System in any twelve consecutive months out of the most recent eighteen months preceding the sale of Subordinated Bonds, as determined from the financial statements of the System, were not less than the sum of (a) the Aggregate Debt Service (as defined in the Subordinated Bond Resolution) on the then Outstanding Senior Lien Bonds, (b) the Aggregate Subordinated Debt Service (as defined in the Subordinated Bond Resolution) on the then Outstanding Subordinated Bonds and (c) the Parity Subordinated Indebtedness Debt Service (as defined in the Subordinated Bond Resolution) on all Parity Subordinated Indebtedness then Outstanding, in each case, over such twelve month period; and

(II) except in the case of any Series of Refunding Subordinated Bonds and any Series of Special Subordinated Bonds (as defined in the Subordinated Bond Resolution), an authorized officer of the City shall execute a certificate stating that the Net Revenues (as defined in the Subordinated Bond Resolution) 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 the Subordinated Bond Resolution, shall be at least equal to the sum of (a) the Adjusted Aggregate Debt Service (as defined in the Subordinated Bond Resolution) for each such Fiscal Year on the Outstanding Senior Lien Bonds and Subordinated Bonds, (b) the Adjusted Aggregate Subordinated Debt Service (as defined in the Subordinated Bond Resolution) for each such Fiscal Year on the Outstanding Subordinated Bonds and the Subordinated Bonds of the Series with respect to which such statement is made and (c) the Parity Subordinated Indebtedness Debt Service for each such Fiscal Year on the outstanding Parity Subordinated Indebtedness, as estimated by the City in accordance with the Subordinated Bond Resolution. The period to be covered by such certificate is the period beginning with the Fiscal Year in which the first Subordinated Bonds of such Series are to be 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 Debt Securities (as defined in the Subordinated Bond Resolution) estimated by the City to be outstanding is to be paid from deposits made from the proceeds of Debt Securities.

The City may issue additional Subordinated Bonds for refunding any Outstanding Senior Lien Bonds, Outstanding Subordinated Bonds or Outstanding Parity Subordinated Indebtedness without regard to the requirements described in (I) and (II) above. Reference is made to the Subordinated Bond Resolution for a review of the complete requirements for the issuance of additional Subordinate Bonds

and refunding Subordinated Bonds. See "ADDITIONAL AVAILABLE INFORMATION" herein to access a full copy of the Subordinated Bond Resolution which is hereby incorporated by reference as if fully set forth herein.

### **Rate Covenants**

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

Pursuant to the Subordinated Bond Resolution, the City is required to establish and collect rates, fees and charges for the use or the sale of the output, capacity or service of the System which, together with other available Revenues, are reasonably expected to yield Net Revenues which, subject to certain allowable exclusions, shall be at least equal to the sum of (a) the Aggregate Debt Service on the Outstanding Senior Lien Bonds for the forthcoming 12 month period, (b) the Aggregate Subordinated Debt Service on the outstanding Subordinated Bonds for the forthcoming 12 month period, and (c) the Parity Subordinated Indebtedness Debt Service on the outstanding Parity Subordinated Indebtedness for the forthcoming 12 month period, and, in any event, as shall be required, together with other available funds, to pay or discharge all other indebtedness, charges and liens whatsoever payable out of Revenues under the Senior Bond Resolution and the Subordinated Bond Resolution and to comply with all the covenants of the City contained in the Senior Bond Resolution and the Subordinated Bond Resolution.

### **THE SUBORDINATED BOND RESOLUTION**

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

### **ADDITIONAL AVAILABLE INFORMATION**

Pursuant to certain exceptions under Rule 15(c)(2)(12) of the SEC (the "Rule"), the City is not required to, and does not intend to, provide any continuing disclosure with respect to the CP Notes.

However, in connection with the issuance of certain other outstanding debt of the City, the City has undertaken to file on the designated repository of the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access system ("EMMA") certain annual financial information and operating data relating to the System, including audited financial statements of the System, and to provide notices of the occurrence of certain enumerated events. Holders and potential purchasers of the CP Notes may access such information on EMMA.

The City's audited financial statements with respect to the System for the fiscal year ended September 30, 2016 have been posted on the City's website at <http://www.cityofgainesville.org/AboutGRU/InvestorRelations.aspx>, and, for future Fiscal Years, will be posted as soon as they are available following the close of each Fiscal Year. For more information, see "AUDITED FINANCIAL STATEMENTS" herein. For additional information, the City's audited financial statements for the fiscal year ended September 30, 2016 are expected to be posted in the near future on the City's website at <http://www.cityofgainesville.org/BudgetFinance/CAFR.aspx>.

Full copies of the CP Notes Prior Offering Memorandum (as hereinafter defined), the Senior Bond Resolution, the Subordinated Bond Resolution, the Second Supplemental Subordinated Bond Resolution, and the Fourth Supplemental Subordinated Bond Resolution, are, and any future amendments thereto or replacement credit agreements, will be, available on the City's website at <http://www.cityofgainesville.org/AboutGRU/InvestorRelations.aspx>.

Requests for additional information concerning the City and the System should be directed to Justin M. Locke, Utility Chief Financial Officer, Gainesville Regional Utilities, 301 SE 4<sup>th</sup> Avenue, Gainesville, Florida 32601, Telephone (352) 334-3400, extension 1312.

## LEGAL MATTERS

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

Resolution and the CP Notes, and except as to the accuracy of the information under the caption "TAX MATTERS – Tax Exemption of Additional Series C Notes", as it applies to the Additional Series C Notes.

Certain legal matters in connection with the issuance of the Series C Notes that do not constitute Additional Series C Notes (the "Original Series C Notes") are subject to the approving legal opinion of Orrick, Herrington & Sutcliffe LLP, New York, New York delivered April 25, 2008 and attached as Appendix A to the Commercial Paper Offering Memorandum of the City dated November 20, 2015 with respect to the CP Notes (the "CP Notes Prior Offering Memorandum"), which opinion is hereby incorporated herein by reference and such opinion is hereinafter referred to as the "Orrick Opinion".

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

Certain legal matters in connection with the issuance of the Series D Notes are subject to the approving legal opinion of Orrick, Herrington & Sutcliffe LLP, New York, New York delivered November 28, 2014 and attached as Appendix A to the CP Notes Prior Offering Memorandum, which opinion is hereby incorporated herein by reference.

A copy of such CP Notes Prior Offering Memorandum is available as described under the heading "ADDITIONAL AVAILABLE INFORMATION" herein.

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

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

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

## **TAX MATTERS**

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

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

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

See "ADDITIONAL AVAILABLE INFORMATION" herein to access such information which is hereby incorporated by reference as if fully set forth herein.

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

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

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

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

regulatory authorities as of the date of issuance and delivery of the Additional Series C Notes, and Note Counsel has expressed no opinion as of any date subsequent thereto.

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

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

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

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



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

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

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

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

## **FLORIDA SECURITIES LAWS**

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

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

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

## RATINGS

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

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

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

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

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

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

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

## LITIGATION

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 CP Notes were originally issued, (ii) the validity of any provision of the CP Notes or the Senior Bond Resolution or Subordinated Bond Resolution, (iii) the pledge by the City under the Senior Bond Resolution or the Subordinated Bond

Resolution, (iv) the legal existence of the City or (v) the authority of the City to own and operate the System and to set utility rates.

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

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

In addition, GREC has alleged claims in contract and tort that it asserts could result in aggregate damages to GREC of over \$100,000,000. These claims are GREC's Counts 2, 3 and 4 summarized below. Likewise, GRU has alleged claims in contract that could result in aggregate damages to GRU of over \$100,000,000. These claims are GRU Counts 4 and 5 summarized below. At this stage in the proceedings, neither party has substantiated the dollar value of these additional claims to the tribunal. At this stage in the proceedings, it is not possible for GRU to predict the outcome of these claims. However, GRU is vigorously defending against the GREC Counts in arbitration and believes that (i) some or all of any damages resulting from the GREC Counts constituting tort claims would be subject to sovereign immunity claims processes and statutory caps, (ii) some or all of any damages resulting from the tort claims may be covered by liability insurance of the City, and (iii) regardless of whether GREC is successful on any of the GREC Counts, GRU Management believes that any potential liability of GRU will not adversely affect GRU's ability to pay (from GRU revenues or resources) the debt service on the Senior Lien Bonds or the Subordinated Indebtedness, including the CP Notes, or to otherwise comply with any of its obligations under the Senior Bond Resolution or the Subordinated Bond Resolution, including the rate covenants.

The arbitration hearing is currently scheduled for June, 2017. Pursuant to the PPA, the decision of the arbitrator will be final and binding on the parties.

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

**Related GRU Counts 1, 2, 3 and 6:** GRU seeks declarations that (1) performance of annual Planned Maintenance is a material obligation under the PPA, (2)

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

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

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

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

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

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

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

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

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

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

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

*Alachua County Case No. 01-2016-CA-811.* On March 7, 2016, Jim Konish, a candidate for City Commission District IV seat, filed suit against another candidate, Adrian Hayes-Santos, for the same seat. Konish alleged that Hayes-Santos had not lived in District IV for 6 months or more prior to qualifying (the residency requirements set forth in City code) and therefore could not qualify as a candidate for the District IV City Commission seat. In March, 2016, Hayes-Santos won the election and began his term as District IV Commissioner in May, 2016. On February 23, 2017, the court entered a final judgment in favor of Hayes-Santos finding that there was ample evidence to show that Hayes-Santos did in fact meet the residency requirement for the District IV City Commission seat to which he was elected. The time for appeal has not yet expired.

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

#### **CONTINGENT FEES**

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

#### **INDEPENDENT AUDITORS**

The financial statements of the System as of September 30, 2016 and for the year then ended have been audited by Purvis, Gray & Company LLP, independent auditors (the "Auditor"). Such statements speak only as of September 30, 2016 and have been included as public documents and the consent of the Auditor has not been required. The Auditor has not been engaged to perform and has not performed, since the date of its report included therein, any procedures on the financial statements addressed in that report. Such statements of the City are available on the City's website. See "ADDITIONAL AVAILABLE INFORMATION" herein to access a full copy of such statements which are hereby incorporated by reference as if fully set forth herein.

#### **FINANCIAL ADVISOR**

The City has retained Public Financial Management, Inc. as Financial Advisor. The Financial Advisor is not obligated to undertake and has not undertaken to make an independent verification or to

assume responsibility for the accuracy, completeness or fairness of the information contained in this Offering Memorandum.

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

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

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

#### **CERTIFICATION OF OFFERING MEMORANDUM**

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

CITY OF GAINESVILLE, FLORIDA

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

## APPENDIX A

### 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 (BEBR) 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 Harvey M. Budd, At-Large .....	May 2018
Commissioner Craig E. Carter, District 3 .....	May 2017
Commissioner Todd N. Chase, District 2 .....	May 2017
Commissioner Charles E. Goston, District 1 .....	May 2018
Commissioner Adrian Hayes-Santos, District 4 .....	May 2019
Commissioner Helen K. Warren, At-Large .....	May 2017

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 tables depict historical and projected population growth of the City, the County and the State of Florida:

### POPULATION GROWTH

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

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

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

## Employment

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

### EMPLOYMENT

<u>Year</u>	<u>Unemployment Rate</u>
2006	2.70%
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

Source: Florida Research and Economic Information Database Application.



**GAINESVILLE MSA TOTAL  
NON-AGRICULTURAL EMPLOYMENT  
(DECEMBER 2016)**

<u>Industry</u>	<u>Percentage of Workforce</u>
Construction	3.53%
Manufacturing	3.24
Trade, Transportation & Utilities	14.42
Information	1.08
Financial Activities	4.69
Professional & Business Services	9.67
Educational & Health Services	18.53
Leisure & Hospitality	10.38
Other Services	3.46
Government	31.00

---

Source: U.S. Department of Labor

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

<u>Firm</u>	<u>Product/Business</u>	<u>Employees</u>
University of Florida	Education	27,567
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
Nationwide Insurance Company	Insurance	960
Alachua County	Government	809
Publix Supermarkets	Grocer	780

---

Source: Finance Department, City of Gainesville, Florida.

## Property Tax Data

The following data is provided for information and analytical purposes only. The CP Notes are not secured by ad valorem tax revenues of the City.

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

Fiscal Year Ended	Just Value				Exemptions					Total Taxable Assessed Value	Total Direct Tax Rate
	Tax Year	Real Property	Personal Property	Centrally Assessed Property	<u>Governmental</u>	<u>Agricultural</u>	<u>Institutional</u>	<u>Homestead</u>	<u>Other (1)</u>		
09/30											
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 <u>Year<sup>(1)</sup></u>	City Fiscal <u>Year<sup>(2)</sup></u>	Net Taxable Value for <u>Local Levies<sup>(3)</sup></u>	Local Property Tax Rates (Mills) General <u>Government<sup>(4)</sup></u>	Local Property Tax Levies (\$) General <u>Government</u>	Total Taxes <u>Levied</u>
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 <u>September 30.</u>	Total Tax Levy for <u>Fiscal Year</u>	Collected within the Fiscal Year of the Levy		Collections in Subsequent <u>Years</u>	Total Collections to Date	
		<u>Amount</u>	<u>Percentage of Levy</u>		<u>Amount</u>	<u>Percentage of Levy</u>
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 Year	Tax Year	City of Gainesville Direct Rate	Alachua County County	Overlapping Rates			Total Direct & Overlapping Rates
				Alachua County School District	St. Johns Water Management District	Alachua County Library District	
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	8.8456	9.0920	0.3313	1.4790	24.0023
2013	2012	4.4946	8.8456	8.5490	0.3313	1.4768	23.6973
2014	2013	4.5780	9.0490	8.4020	0.3283	1.4588	23.8161
2015	2014	4.5079	9.0490	8.4100	0.3164	1.4588	23.7421
2016	2015	4.5079	8.9545	8.3420	0.3023	1.4538	23.5605

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>**

Taxing Authority	Taxable Property Value <sup>(2)</sup>	General Obligation Bonded Debt <sup>(3)</sup>	Percent of Debt Applicable to City <sup>(4)</sup>	City's Share of General Obligation Debt <sup>(5)</sup>
City of Gainesville	\$6,034,941,259	\$ 0	100.00%	\$ 0
Alachua County		0	n/a	0
Alachua County School Board		571,000	43.59	<u>248,905</u>
Alachua County Library District		0	n/a	0
				<u>\$248,905</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>		\$80,295,800	\$80,295,800
Alachua County Schools		61,324,234	61,324,234
Alachua County Library District <sup>(1)</sup>		2,063,000	2,063,000
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> FY 2016 data not yet available for the County and the County Library District; amounts shown are as of September 30, 2015 for those two entities.

Source: Finance Department, City of Gainesville, Florida.

**DEBT SUMMARY<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	\$135,059,759	\$135,059,759

Maximum Annual Debt Service on Debt Payable from Non-Ad Valorem Revenues after 10/01/2016	\$15,005,625
--	--------------

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

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

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

Source: Finance Department, City of Gainesville, Florida.

## PRINCIPAL TAXPAYERS

### Tax Roll Year 2015

<u>Owner/Taxpayer</u>	<u>Taxable Value</u>	<u>Percent of Total Taxable Value</u>
Gainesville Renewable Energy Center Inc.	\$314,316,090	5.21%
Oaks Mall Gainesville LTD	125,590,400	2.08
HCA Health Services of Florida, Inc.	79,815,000	1.32
AT&T Mobility LLC	68,499,022	1.14
Oak Hammock at the University of FL, Inc.	54,496,790	0.90
North Florida Regional Hospital	54,486,950	0.90
LSH 1601 SW 51 <sup>st</sup> Terrace LP	35,785,500	0.59
S Clark Butler Properties Land Trust	35,672,790	0.59
Duke Energy Florida Inc.	33,808,372	0.56
Cox Communications Inc.	31,914,417	0.53
<b>TOTAL PRINCIPAL TAXPAYERS</b>	<b>\$834,385,331</b>	<b>13.83%</b>

Source: Finance Department, City of Gainesville, Florida.

## LIABILITIES OF THE CITY

### Insurance Considerations Affecting the City

#### General

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

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

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

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

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

<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 2015 and 2016 were as follows:

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

#### Health Insurance

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

<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 (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 1,024 retirees, spouses and dependents receiving benefits and has a total of 1,717 active participants. Of that total, 1,335 are not yet eligible to receive benefits.

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, 2015, the City's annual Other Post-Employment Benefit ("OPEB") cost for the RHCP was \$3,585,790. 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, 2015, 2014 and 2013 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>
09/30/13	\$3,318,685	\$3,028,733	91.26%	\$(18,976,279)
09/30/14	3,440,342	2,746,676	79.84	(18,282,553)
09/30/15	3,585,790	2,972,451	82.90	(17,669,214)

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 \$2,441,107, \$2,228,139 and \$2,490,213 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 2015, 2014, and 2013, 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 September 30, 2013 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions used included an 8.5% investment rate of return, compounded annually, net of investment expenses. The annual healthcare cost trend rate of 6% is the ultimate rate. The select rate was 12% but was decreased to the ultimate rate in 2002. Both the rate of return and the healthcare cost trend rate include an assumed inflation rate of 3.75%. The actuarial valuation of RHCP assets was set at fair market value of investments as of the measurement date. The RHCP's initial unfunded actuarial accrued liability ("UAAL") as of 1994 is being amortized as a level percentage of projected payroll over a closed period of twenty years from 1994 and changes in the UAAL from 1994 through 2003 are amortized over the remaining portion of the twenty-year period. Future changes in the UAAL will be amortized on an open period of ten years from inception.

### Funded Status

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Entry Age <u>(b)</u>	Unfunded <u>(UAAL)</u> <u>(b) – (a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as % of Covered Payroll <u>(b-a)/c</u>
9/30/15	\$56,422,165	\$63,325,773	\$6,903,608	89.10%	\$131,000,000	5.27%

### **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.

[Remainder of page intentionally left blank]

## Direct Debt

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

	Principal Amount Issued	Principal Amount Outstanding as of October 1, 2016
Revenue Bonds: <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 described herein.

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

## Defined Benefit Pension Plans

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

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

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

#### Employees' Plan

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

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

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

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

<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, 2015, the following employees were covered by the benefit terms:

Active employees	1,450
Inactive employees:	
Retirees and beneficiaries currently receiving benefits	1,056
DROP retirees currently receiving benefits	92
Disabled currently receiving benefits	42
Vested terminated members entitled to future benefits	301
Limited members entitled to future benefits	96
Pending refunds	8
Total	3,045

*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

		Real Risk		Total		
	<u>Inflation</u>	<u>Free</u>	<u>Risk</u>	<u>Expected</u>	<u>Policy</u>	<u>Policy</u>
		<u>Return</u>	<u>Premium</u>	<u>Return</u>	<u>Allocation</u>	<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.

[Remainder of page intentionally left blank]



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 10/01/2014	\$436,067,871	\$347,480,565	\$88,587,306
Changes for the year:			
Service cost	7,153,541	-	7,153,541
Interest	35,741,289	-	35,741,289
Differences between expected and actual experience	1,954,558	-	1,954,558
Transfer from terminated Disability Plan	2,455,848	2,320,442	135,406
Changes to assumptions	15,880,346	-	15,880,346
Contributions – employer	-	11,746,935	(11,746,935)
Contributions – employee	-	4,429,289	(4,429,289)
Net investment income	-	(2,486,089)	2,486,089
Benefit payments, including refunds and DROP payouts	(28,306,207)	(28,306,207)	-
Administrative expense	-	(580,988)	580,988
Net changes	34,879,375	(12,876,618)	47,755,993
Balances at 09/30/2015	<u>\$470,947,246</u>	<u>\$334,603,947</u>	<u>\$136,343,299</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 1 percentage-point lower (7.2%) or 1 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)	\$192,074	\$128,361	\$74,692

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

[Remainder of page intentionally left blank]

*Pension expense and deferred outflows of resources and deferred inflows of resources.* For the year ended September 30, 2015, the City recognized pension expense for the Employees' Plan of \$19,592,625. At September 30, 2015, 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	\$1,628,799
Net difference between projected and actual earnings on pension plan investments	24,912,477
Changes to assumptions	<u>13,233,622</u>
Total	<u>\$39,774,898</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>	
2017	\$8,027
2018	8,027
2019	8,027
2020	1,550
Thereafter	0

#### Disability Plan

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

#### Consolidated Plan

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

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

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

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

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

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

- Employees are eligible for normal retirement:
  - If the date of hire occurred prior to 07/01/2013, after accruing 20 years of pension service credit, regardless of age or after accruing 10 years of pension service credit and reaching age 55 while still employed, or attaining a combination of credited service and age that equals seventy (Rule of Seventy).
  - If the date of hire was on or after 07/01/2013, after accruing 25 years of pension service credit, regardless of age or after accruing 10 years of pension service credit and reaching age 55 while still employed, or attaining a combination of credited service and age that equals seventy.
- Employees are eligible for early retirement:
  - After accruing 10 years of pension service credit and reaching age 50 while still employed.
  - Under the early retirement option, the benefit is reduced 3% for each year by which the retirement date is less than the date the employee would reach age 55.
- Employees may choose to receive a refund on contributions to the plan or to receive a deferred vested benefit if they are terminated after accruing 10 years of pension service credit but prior to eligibility for regular retirement. Those employees will be eligible to receive a benefit starting at age 55 with no reduction or at age 50 with the early retirement penalty above.

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

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

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

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

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

Retirement eligibility for Firefighters is as follows:

- Employees are eligible for normal retirement:
  - If the date of hire occurred prior to 01/01/2014, after accruing 20 years of pension service credit, regardless of age or after accruing 10 years of pension service credit and reaching age 55 while still employed, or attaining a combination of credited service and age that equals seventy (Rule of Seventy).
  - If the date of hire was on or after 01/01/2014, after accruing 25 years of pension service credit, regardless of age or after accruing 10 years of pension service credit and reaching age 55 while still employed, or attaining a combination of credited service and age that equals seventy.
- Employees are eligible for early retirement:
  - After accruing 10 years of pension service credit and reaching age 50 while still employed.
  - Under the early retirement option, the benefit is reduced 3% for each year by which the retirement date is less than the date the employee would reach age 55.
- Employees may choose to receive a refund on contributions to the plan or to receive a deferred vested benefit if they are terminated after accruing 10 years of pension service credit but prior to eligibility for regular retirement. Those employees will be eligible to receive a benefit starting at age 55 with no reduction or at age 50 with the early retirement penalty above.

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

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

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

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

Death benefits are paid as follows:

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

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

*Employees covered by benefit terms.* At September 30, 2014, the following employees were covered by the benefit terms:

Active employees	389
Inactive employees:	
Retirees and beneficiaries currently receiving benefits	402
Vested terminated members entitled to future benefits	<u>17</u>
Total	808

*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 2015 was 14.36% of covered payroll for police personnel and 17.27% for fire personnel. This rate was influenced by the issuance of the Taxable Pension Obligation Bonds, Series 2003B. In addition, State contributions, which totaled \$1,269,828, 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, 2014 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, 2015 were as follows:

Components of Net Pension Liability

Total pension liability	\$245,915,632
Plan fiduciary net position	<u>(217,047,910)</u>
City's net pension liability	<u>\$ 28,867,722</u>
Plan fiduciary net position as a percentage of the total pension liability	88.26%

*Significant Actuarial Assumptions.* The total pension liability as of September 30, 2015 was determined based on a roll-forward of entry age normal liabilities from the October 1, 2013 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	8.30%, net of pension investment expenses

#### Mortality Rate:

Mortality rates were based on the RP-2000 Combined Fully Generated Mortality Table with Blue Collar adjustment. 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, 2014 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 was 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.

[Remainder of page intentionally left blank]

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>	Total Expected <u>Return</u>	Policy <u>Allocation</u>	30-Year Policy <u>Return</u>
US Large Cap	3.00%	11.23%	35.00%	3.93%
US Small Cap	3.00	13.99	15.00	2.10
Global Equity ex US	3.00	11.58	10.00	1.16
Private Equity	3.00	16.03	10.00	1.60
US Govt Credit	3.00	5.34	7.50	0.40
NCREIF	3.00	8.81	7.50	0.66
Hedge Funds	3.00	7.93	<u>15.00</u>	<u>1.19</u>
Total			100.00%	11.04%

Discount Rate:

The discount rate used to measure the total pension liability was 8.3%. 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.

Remainder of page intentionally left blank]



### 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 10/01/2013	\$233,261,469	\$201,461,721	\$31,799,748
Changes for the year:			
Service cost	3,730,365	-	3,730,365
Interest	19,299,422	-	19,299,422
Differences between expected and actual experience	-	-	-
Changes to assumptions	2,523,158	-	2,523,158
Contributions - employer	-	3,855,020	(3,855,020)
Contributions - employee	-	2,067,685	(2,067,685)
Contributions – state	-	1,259,995	(1,259,995)
Net investment income	-	21,911,535	(21,911,535)
Benefit payments, including refunds and DROP payouts	(12,898,782)	(12,898,782)	-
Administrative expense	-	(609,264)	609,264
Net changes	12,654,163	15,586,189	(2,932,026)
Balances at 09/30/2014	<u>\$245,915,632</u>	<u>\$217,047,910</u>	<u>\$28,867,722</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 8.3%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (7.3%) or 1 percentage-point higher (9.3%) than the current rate:

	1% Decrease <u>(7.3%)</u>	Current Discount Rate <u>(8.3%)</u>	1% Increase <u>(9.3%)</u>
Net pension liability	\$56,835,618	\$28,867,722	\$5,548,250

*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, 2015, the City recognized pension expense for the Consolidated Plan of \$3,308,471. At September 30, 2015, 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	\$3,682,847	-
Net difference between projected and actual earnings on pension plan investments	-	\$4,404,003
Changes to assumptions	<u>2,018,526</u>	<u>-</u>
Total	<u>\$5,701,373</u>	<u>\$4,404,003</u>

The \$3,682,847 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>	
2016	\$(596,369)
2017	(596,369)
2018	(596,369)
2019	(596,370)

## **APPENDIX B**

### **THE SYSTEM**

#### **General**

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

The electric system was established in 1912 to provide street lighting and electric service to the downtown area. Continuous expansion of the electric system and its generating capacity has resulted in the electric system serving an average of 94,795 customers in the fiscal year ended September 30, 2016 and having a maximum net summer generating capacity of 525 MW.

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

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

The telecommunications system, GRUCom, was established in 1995 to provide communication services to the Gainesville area in a manner that would minimize duplication of facilities, maximize interconnectivity, simplify access, and promote the evolution of new technologies and business opportunities. GRUCom operates a state-of-the-art fiber optic network and current product lines include telecommunications transport services, Internet access services, communication tower antenna space leasing services, and public safety radio services. GRUCom served an average of 6,472 Internet access customer connections and 152 dial-up customers in the fiscal year ended September 30, 2016.

#### **Utility Advisory Board**

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

utility customers; and considers and makes recommendations regarding proposed changes in fees, rates, or charges for utility services.

### **Legislative Matters**

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

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

On February 9, 2017, State Representative Chuck Clemons, Sr., filed House Bill 759, which is largely identical in substance to the 2016 bill, with one exception – the board members receive no salaries.

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

### **Management of the System**

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

*Mr. Edward J. Bielarski, Jr., General Manager for Utilities*, joined the System as a Charter Officer and General Manager in June of 2015 replacing the Interim General Manager who had served since November 2013. Mr. Bielarski has over 20 years of experience in the utility industry, having worked with Constellation Energy Group (Maryland) as a Project General Manager and a Project Chief Financial Officer, and Lehigh County Authority (Pennsylvania) as a Chief Operating Officer and Chief Financial Officer. As a Charter Officer, he reports directly to the seven-member City Commission and to the Utilities Advisory Board (UAB). Mr. Bielarski currently serves on the Board of Directors for The Energy Authority, Inc. (TEA) and the Florida Reliability Coordinating Council (FRCC). In his role as General Manager, Mr. Bielarski oversees all operations of the combined electric, natural gas, water, wastewater and telecommunications utilities. Principal responsibilities include management for all planning, administration, customer service, engineering, organizational development, construction and operations for all utility responsibility areas in accordance with City policies. Additionally, he oversees the preparation and administration of the annual budget and is responsible for policy development and the implementation of policies adopted by the City Commission.

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

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

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

**Nicolle M. Shalley, Esq., City Attorney, presently serving as Utilities Attorney**, Nicolle M. Shalley, Esq., City Attorney has been with the City Attorney's Office since 2006 and has been the City Attorney and supervisor of the Utilities Attorney since October 2012. Due to a vacancy, Ms. Shalley is presently serving as Utilities Attorney until the newly hired utilities attorney joins the City Attorney's Office on April 3, 2017.

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

**Mr. William J. Shepherd, Chief Customer Officer**, has been with the System for over 23 years, was appointed to his position in September 2015 and previously served as the Director of Customer

Operations. The majority of Mr. Shepherd's career has been in Energy and Business services where he has played a critical part in the design and development of the System's nationally recognized energy efficiency programs. Mr. Shepherd holds a Masters of Business Administration from the University of Florida and a Bachelor of Science in Aeronautical Science from Embry Riddle Aeronautical University, and is a Certified Energy Manager (CEM). Mr. Shepherd is responsible for customer service, billing, collections, mail services, quality control, facilities, purchasing, cashiers, energy and business services, and new services.

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

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

## **Labor Relations**

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

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

## **Permits, Licenses and Approvals**

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

## **THE ELECTRIC SYSTEM**

### **Service Area**

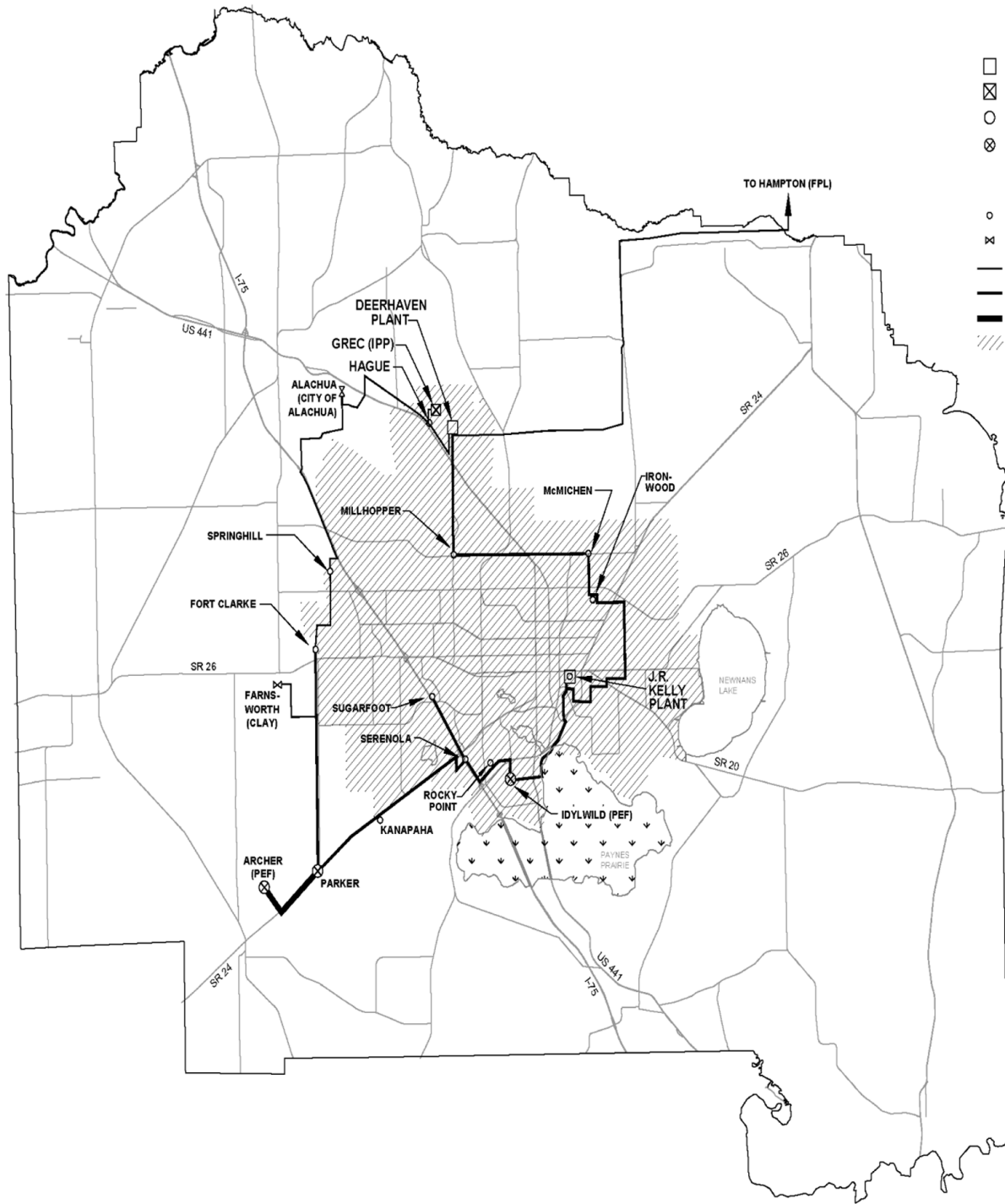
The System provides retail electric service to customers in the Gainesville urban area which includes the City and a portion of the surrounding unincorporated area. Wholesale electric services are currently provided to Alachua and the City of Winter Park, Florida ("Winter Park"). See "Energy Sales – Retail and Wholesale Sales" below. The electric facilities of the System currently serve approximately 124.5 square miles of the County, and approximately 77% of the population of the County, including the entire City, with the exception of the University of Florida campus, which is served principally by Duke. Electric service is also provided in the unincorporated areas of the County by Duke, Clay Electric Cooperative ("Clay"), Florida Power & Light Company (FPL), and Central Florida Electric Cooperative, Inc. The System has a territorial agreement with Clay which establishes a service boundary between the two utilities in the unincorporated areas of the County in order to clearly delineate, for existing and future service, those areas to be served by the System and those areas to be served by Clay. This agreement has been approved by the Florida Public Service Commission (FPSC) through 2017 and is currently in negotiations for further extension. See the UTILITY SERVICE AREA MAP on the following page.

[Remainder of page intentionally left blank]

# UTILITY SERVICE AREA MAP

## LEGEND:

- GRU GENERATING PLANT
- ⊠ IPP GENERATION
- TRANSMISSION SUBSTATION
- ⊗ TRANSMISSION SUBSTATION WITH TRANSFORMATION OF TRANSMISSION VOLTAGE
- DISTRIBUTION SUBSTATION
- × TRANSMISSION SERVICE
- SINGLE CIRCUIT 138 kV
- DUAL CIRCUIT 138 kV
- SINGLE CIRCUIT 230 kV
- /// GRU ELECTRIC SERVICE BOUNDARY



0 1 2 4  
Scale in Miles



## Customers

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

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

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

## Energy Sales

### The Energy Authority

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

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

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

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

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

For a discussion of the System's investment in TEA and its commitments to TEA as of September 30, 2016 and 2015, see Note 3 to the financial statements of the System "Investment in The Energy Authority" referenced under "ADDITIONAL AVAILABLE INFORMATION" in the forepart of this Offering Memorandum. See also "Energy Supply System – *Fuel Supply – Natural Gas*" below for additional discussion of TEA's role in supplying natural gas for the System.

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

The coordinated dispatch model creates another option to provide power at a lower price point, but is not an obligation. GRU and JEA would dispatch their two systems as one and establish day-ahead (and in the 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 2,032,358 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 2.1% increase in residential MWh sales from the prior year.

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

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

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

#### Interchange and Economy Wholesale Sales

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

Net Revenues from Interchange and Economy Wholesale Sales<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%

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

Interchange and Economy Wholesale Purchases

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

## Renewable Energy

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

## Energy Supply System

Generating Facilities

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

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

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

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

Existing Generating Facilities		Fuels		Net Summer Capability (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
				<hr/> 108
<u>Deerhaven Generating Station</u>				
	Steam Unit 2	Bituminous Coal	—	228
	Steam Unit 1	Natural Gas	Residual Fuel Oil	75
	Combustion Turbine 3	Natural Gas	Distillate Fuel Oil	71
	Combustion Turbine 2	Natural Gas	Distillate Fuel Oil	17.5
	Combustion Turbine 1	Natural Gas	Distillate Fuel Oil	17.5
				<hr/> 409
<u>South Energy Center</u>				
	SEC-1	Natural Gas	—	<hr/> 3.5
				520.5
<u>Plant Entitlement</u>	GREC	Biomass	—	<hr/> 102.5
				623
<u>Base Landfill</u>		Landfill Gas	—	<hr/> 3
				626.0

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

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

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

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 \$1.3 million on decommissioning the circulating dry scrubber that was installed in 2009 due to structural integrity issues. This environmental control equipment is being replaced with upgraded structural support and a corrosion/erosion resistance liner that is made of C-276 alloy. The replacement and upgrades are expected to be completed before the summer peak season and is expected to cost the System approximately \$5.2 million but will better ensure the long-term reliability of the environmental control equipment.

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

(NEIL). The System has received its allocated insurance proceeds of \$1,308,211, of which \$660,951 was credited on invoices.

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 (NRC) on May 20, 2015. Upon the NRC's approval of ownership transfer, the minority owners received certain cash settlements and Duke agreed to be responsible for all future costs and liabilities relating to CR-3 including decommissioning costs. On October 30, 2015, the transfer of ownership interests in CR-3 closed, and the System received a settlement of \$9.56 million as a minority owner of CR-3 and \$618,534 as a former purchaser of power from CR-3. Consequently, CR-3 is not shown on the table of generating facilities.

For further discussion regarding the Crystal River 3 generating unit, see Note 5 to the audited financial statements of the System "Jointly Owned Electric Plant" referenced under "ADDITIONAL AVAILABLE INFORMATION" in the forepart of this Offering Memorandum.

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

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

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

The System is currently adding energy and thermal capacity to the South Energy Center to serve a new 500,000 square foot cardiovascular and neuromedicine hospital tower under construction. As part of this expansion, the System is adding a 7.4 MW natural gas-fired reciprocating engine, a 3,000 ton chiller, a 3 MW diesel-fired engine, and ancillary equipment. The cost for this capacity addition will be

approximately \$30 million. All capital and operating costs associated with this capacity addition will be recovered under the System's long-term contract with UF Health. The System's capacity additions will be completed in summer 2017, while the new hospital tower will open in December 2017.

#### Power Purchase Arrangements

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

GREC is a merchant power plant within the System's NERC Balancing Authority. This imposes regulatory responsibilities on both GREC LLC and the System. Pursuant to the rights and obligations of the PPA and regulatory requirements of NERC, the System has sole control of the dispatch of GREC. GREC is equipped with Best Available Control Technology (BACT) air emission controls including; dry sorbent injection, selective catalytic reduction of NO<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. GREC received its Title V Operating Air Emissions Permit effective January 1, 2015, which must be renewed every five years.

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

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

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



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

#### **Fuel Supply**

The objectives of the System's fuel procurement and management strategy are: (1) diversification of fuel mix and fuel sources, (2) continuous improvement of delivered fuel cost through innovative contract procurement and the use of short-term suppliers, (3) optimization of the quality of fuel and market price to achieve environmental compliance in the most effective and competitive manner possible, (4) reduction in the impact of price volatility in fuel markets through physical and financial risk management of the fuel supply portfolio and (5) participation in joint procurement programs with other municipal systems to maximize the price benefits of volume purchasing. The flexibility afforded by these actions allows the System to take advantage of changes in relative fuel prices and strategically adjust its use of coal, natural gas or fuel oil to optimize its fuel costs. For fiscal year 2016, net energy for load (NEL) was served as follows: coal 20.66%; biomass 0.86%; natural gas 54.53%; landfill gas 1.19%; solar 1.14%; oil 0.01%. The remainder of NEL was served by spot purchase power. The System, as both a buyer in the fuel markets and a producer of power, hedges risk and volatility by the use of futures and options. The System's hedging activities are primarily limited to natural gas futures and options. The System's exposure to financial market risk through hedging activity is limited by a written policy and procedure, oversight by a committee of senior division managers, financial control systems, and reporting systems to the General Manager for the System.

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

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

***Natural Gas*** – Natural gas supply for both the electric system and the natural gas distribution system is transported to the System by Florida Gas Transmission (FGT) under long-term contracts for

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

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

### **Transmission System, Interconnections and Interchange Agreements**

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

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

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

resulting in a substantial reduction in the amount of reserves required for proper operation and reliability.

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

### Electrical Distribution

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

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

### Capital Improvement Program

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

#### Electric Capital Improvement Program

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

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

## Loads and Resources

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

Fiscal Year	Net Summer System Capability (MW) <sup>(1)</sup>	Firm Interchange Sales (MW)	Peak Load (MW) <sup>(2)</sup>	Actual / Projected Planning Reserve Margin	
				MW	Percent
Historical					
2012	667	0	415	252	61
2013	657	0	416	241	58
2014	645	0	409	236	58
2015	645	0	421	228	56
2016	645	0	428	223	54
Projected					
2017	645	0	437	227	52
2018	645	0	444	222	50
2019	645	0	438	215	49
2020	645	0	441	216	49

<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. Additional resources include 4 MW per year solar beginning in 2009, and continuing through 2013, with a coincident capacity factor of 35%, and 3.8 MW from the Baseline Landfill. No additional FIT solar capacity was added after 2013. 10MW of FIT solar capacity are represented in the table above but are not included in the existing generating facilities. The GREC biomass plant became commercially operational on December 17, 2013 and 102.5 MW are included in projected values.

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

## Mutual Aid Agreement for Extended Generation Outages

The System has entered into a mutual aid agreement for extended generation outages with six other consumer-owned generating utilities in north central Florida and Georgia. Participating with the System in this agreement are FMPA, JEA, Lakeland Electric, Orlando Utilities Commission, the City of Tallahassee, and MEAG Power. Participants have committed to provide replacement power in the event of a long-term (two to twelve month) outage of one of the baseload generating units designated under the

agreement. Each utility will provide a pro-rata share of the replacement power and will be reimbursed at an indexed price of coal assuming a heat rate of 11,000 BTU/kWh and an indexed price for gas assuming a heat rate of 9,250 BTU/kWh. The System has designated 100 MW of the capacity of DH 2 and 100 MW of the capacity at JRK Station to be covered under the agreement. This agreement has been amended and restated over time. The current agreement is set to renew for an additional 5-year term beginning October 1, 2017. The System has provided aid under this agreement, but has never requested aid pursuant to this agreement.

## **Future Power Supply**

### *General*

While the System's existing generating units can maintain a 15% reserve margin through at least 2022, if all generating units are available, the reserve margin can fall from 40+% to a generation deficit with the loss of the System's largest unit, DH 2. As such, power supply planning must address this first contingency event. The reliability of the System's generating sources and the availability of purchased power have been such that the System has never had to declare a generation deficiency. The next scheduled retirement of a generating facility is DH 1 in 2022. Management's strategy to maintain competitive power costs is to maintain the System's status as a self-generating electric utility with a diverse fuel supply that is hedged with a renewable PPA portfolio and meets all environmental standards and expectations of the local community. The ability to be self-generating has proven itself to be a powerful hedge against market volatility while maximizing reliability for native load. Important aspects of this strategy are the management of potentially stranded costs, maintenance of adequate transmission capacity, use of financial as well as physical techniques to hedge fuel costs, and long-term management of pipeline and rail transportation contracts and capacity.

### *The Planning Process*

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

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

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

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

#### Solar Net Metering

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

### **THE WATER SYSTEM**

The water system currently includes 1,146 miles of water transmission and distribution lines throughout the Gainesville urban area, 16 water supply wells located in a protected well field, and one treatment plant (the "Murphree Plant") possessing a rated peak day capacity of 54 Mgd. Treatment processes include lime-softening, recarbonation, filtration, chlorination and fluoridation. The Murphree Plant's design allows for expansion to at least 60 Mgd of capacity at the plant site without interruption of treatment or service. The System renewed its consumptive use permit (CUP) in September 2014 which will expire on September 10, 2034. The water system also includes a total of 19.5 million gallons of water storage capacity, comprised of pumped ground storage and elevated tanks.

#### **Service Area**

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

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

## Customers

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

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

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

## Water Treatment and Supply

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

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

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

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

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

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

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



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

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

### **Transmission and Distribution**

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

### **Capital Improvement Program**

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

### Water Capital Improvement Program

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

### THE WASTEWATER SYSTEM

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

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

#### Service Area

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

#### Customers

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

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

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

In 2011, the System executed an agreement with the City of Waldo, Florida ("Waldo") to provide Waldo with wastewater service on a wholesale basis. Waldo currently provides wastewater service to approximately 850 of its residents. However, Waldo's water reclamation facility could not meet required environmental permit limits. Waldo constructed a lift station and force main which collects Waldo's raw wastewater and discharges it to one of the System's existing lift stations. The facilities provide adequate capacity for Waldo to more than double its service population with future growth, which will in turn result in more revenue opportunities for the System.

## **Treatment**

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

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

In addition, the MSWRF includes a reclaimed water pumping station and distribution system. The reclaimed water distribution system currently includes a pipeline, which provides reclaimed water to the South Energy Center where it is then used for process cooling and irrigation. See "THE ELECTRIC SYSTEM – Energy Supply System – *Generation Facilities – South Energy Center*" herein. This pipeline also provides reclaimed water for pond augmentation and irrigation at the Depot Park Project (MGP remediation site) (see "THE NATURAL GAS SYSTEM – Manufactured Gas Plant" herein) and at the System's Innovation Energy Center chilled water facility (see "MANAGEMENT'S DISCUSSION OF SYSTEM OPERATIONS – Competition" herein). The pipeline will also provide reclaimed water for other irrigation and cooling uses that develop near the pipeline corridor.

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

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

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

The KWRF is permitted to discharge into a potable zone of the Floridan aquifer. Construction was completed in June 2004 to provide a capacity of 14.9 Mgd AADF. The KWRF has two distinct treatment processes incorporated into its design: a modified Ludzack-Ettinger Treatment process and a 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 MSWRF East Train rehabilitation project is scheduled to be completed in or before fiscal year 2021 at an estimated cost of \$3.3 million, and is part of the six-year capital improvements program. The east train is the oldest treatment train at the MSWRF, originally installed in the 1960's. The mechanical components in the east train have signs of deterioration and the aerators are nearly 40 years old. This rehabilitation project will replace the clarifier mechanism, electrical gears, control panels, PLC, aerators and rehabilitate the concrete basin structure.

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

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

## Wastewater Collection

The wastewater gravity collection system consists of 15,309 manholes with 635 miles of gravity sewer, 50% of which consists of vitrified clay pipe. New facilities are primarily constructed of PVC high density polyethylene (HDPE) pipe. The System maintains three television sealing and inspection units which are routinely employed in inspecting new additions to the System to ensure they meet specifications of the System and in inspecting older lines. The television inspections allow the System to identify segments of piping which have high infiltration and inflow or structural concerns. These pipes are restored through a process known as slip-lining, in which a cured in place fiberglass sleeve is installed in the pipe. The System performs slip-lining using its own crews. In addition, the System routinely utilizes contractors to perform slip-lining of longer segments of piping. As a result, infiltration and inflow to the System are not excessive.

The force main system which routes flow to the treatment plant consists of 168 pump stations and over 142 miles of pipe. Existing lines less than 12 inches in diameter are generally constructed of PVC pipe and existing lines 12 inches in diameter and over are generally constructed of ductile iron pipe. For new construction, force mains 16 inches and smaller are generally constructed of PVC or HDPE. The System has instituted a preventative maintenance program to assure long life and efficiency at all pumping stations.

## Capital Improvement Program

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

### Wastewater Capital Improvement Program

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

## THE NATURAL GAS SYSTEM

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

## Service Area

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

## Customers

The following tabulation shows the average number of natural gas customers for the fiscal years ended September 30, 2012 through and including 2016. Over 90% of new single family developments in the Gainesville urban area have been connected to the System over this period.

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

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

## Natural Gas Supply

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

## Natural Gas Distribution

The natural gas system consists of 775 miles of gas distribution mains. The predominant and standard pipe materials in service are polyethylene (580 miles) and coated steel (187 miles). All coated steel pipelines are cathodically protected using magnesium anodes. The distribution system is comprised

of 6.2 miles of uncoated steel and black plastic. The replacement of all three of these pipeline materials has been programmed within the immediate planning/construction horizon and will be completed by the end of fiscal year 2018.

### **Manufactured Gas Plant**

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

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

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

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

### **Capital Improvement Program**

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

### Gas Capital Improvement Program

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

### GRUCOM

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

#### Service Area

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

#### Services Provided

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

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



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

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

## **Customers**

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

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

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

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

agreement which is valid through 2020, with minimum commitments for the number of users and monthly fees per user established for voice and dispatch subscriber units. The public safety radio system is operated by GRUCom on an enterprise basis, but an interagency Radio Management Board has been established to govern user protocols, monitor system service levels, and review system changes that could increase rates. The public safety radio system was designed to accommodate additional participants, and the contract with each participating agency provides incentives to allow the system to expand. Currently, the public safety radio system is in full operation with 2,628 subscriber units in service. Negotiations are underway with the current Radio System Users to provide for upgrading the radio system with technology that will provide for the User needs well into the next decade.

#### GRUCom Projected Revenue and Customer Count

Does not include projections for products and services under development

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

<sup>(1)</sup> 2017 is the last year GRUCom is projecting to have any dial-up customers.

### **Description of Facilities**

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

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

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

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

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

### **Capital Improvement Program**

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

### GRUCom Capital Improvement Program

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

### RATES

#### General

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

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

#### Electric System

Each of the System's various rates for electric service consists of a "base rate" component and a "fuel and purchased power rate" component. The base rates are evaluated annually and adjusted as

required to fund projected revenue requirements for each fiscal year. The fuel and purchased power adjustment clause provides for increases or decreases in the charge for electric energy to cover increases or decreases in the cost of fuel and purchased power to the extent such cost varies from a predetermined base of 6.5 mills per kWh. The current fuel and purchased power adjustment formula is a one-month forward-looking projected formula which is based on a true-up of the prior month's actual fuel costs valued on a weighted average accounting basis, including purchased power, and the upcoming month's estimates of fuel and purchased power costs.

The table below presents electric system base rate revenue, fuel and purchased power adjustment revenue and total bill changes since 2012 and Management's most recent projections of future base rate revenue, fuel and purchased power adjustment revenue and total bill changes. The percentage changes shown do not represent the percentage change in the base rate revenue, fuel and purchased power adjustment revenue or total bill for any particular customer classification or customer. Rather, they represent the aggregate amount required to fund changes in projected non-fuel and fuel and purchased power revenue requirements for the electric system.

[Remainder of page intentionally left blank]

**Electric System**  
**Base Rate Revenue, Fuel and Purchased Power**  
**Adjustment Revenue and Total Bill Changes**

	Percentage Base Rate Revenue Increase/(Decrease) <sup>(1)</sup>	Percentage Fuel and Purchased Power Adjustment Revenue Increase/(Decrease) <sup>(2)</sup>	Total Bill Increase/(Decrease) <sup>(3)</sup>
Historical (Fiscal Year Beginning):			
October 1, 2012	0.00	(4.70)	(2.20)
October 1, 2013	(5.60)	37.20	11.10
October 1, 2014	(8.50)	17.00	2.80
October 1, 2015	0.00	(6.70)	(4.30) <sup>(3)</sup>
October 1, 2016	0.00	(3.70)	(2.00)
Projected (Fiscal Year Beginning): <sup>(4)</sup>			
October 1, 2017	2.00	0.00	2.60
October 1, 2018	2.00	0.00	0.50
October 1, 2019	3.00	0.00	1.10
October 1, 2020	3.00	0.00	1.50
October 1, 2021	3.00	0.00	1.30

<sup>(1)</sup> Change in overall non-fuel revenues collected from all retail customer classes from billing elements, including monthly service charges, kWh energy usage charges, and demand charges for the rate classes with demand metered separately from energy (General Service Demand and Large Power rate categories). Fuel revenue requirements are collected as a uniform charge on all kWh of energy used. Increases or decreases are applied to billing elements to reflect the most recent cost of service studies and to yield the overall revenue requirement.

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

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

<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.

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

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

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

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

#### Rates and Charges for Electric Service

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

#### **Residential Standard Rate**

Customer charge, per month.....	\$14.25
First 850 kWh, Total charge per kWh.....	\$0.043
All kWh per month over 850, Total charge per kWh .....	\$0.064

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

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

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

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

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

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

## Non-Residential Large Power Rates

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

Customer charge, per month .....	\$350.00
Total Demand charge, per kW .....	\$8.50
Total Energy charge, per kWh.....	\$0.036

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

[Remainder of page intentionally left blank]



Comparison with Other Utilities

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

**Comparison of Monthly Electric Bills<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>\$130.40</b>	<b>\$238.00</b>	<b>\$4,037.50</b>	<b>\$53,803.40</b>
Kissimmee Utility Authority	\$ 95.74	\$156.22	\$2,639.89	\$36,107.92
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	\$101.10	\$156.33	\$2,416.01	\$33,327.78
City of Tallahassee	\$105.72	\$136.80	\$2,580.85	\$35,030.40
JEA	\$108.50	\$155.64	\$2,715.10	\$37,886.50
Ft. Pierce Utilities Authority	\$107.84	\$170.93	\$2,900.85	\$43,497.20
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
Duke (Formerly Progress Energy)	\$119.53	\$182.51	\$2,778.09	\$38,848.85
Florida Power & Light Company	\$102.33	\$153.87	\$2,505.31	\$34,756.45
Gulf Power Company	\$135.83	\$196.26	\$2,951.81	\$41,552.85

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

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

## Water and Wastewater System

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

### Water System Revenue Requirement and Total Bill Changes

	Percentage Revenue Requirement Increase <sup>(1)</sup>	Total Bill Increase <sup>(2)</sup>
Historical		
October 1, 2012	3.50%	3.30%
October 1, 2013	3.85	5.50
October 1, 2014	3.75	6.30
October 1, 2015	3.75	5.80
October 1, 2016	3.00	2.50
Projected <sup>(3)</sup>		
October 1, 2017	3.00	1.10
October 1, 2018	3.00	1.10
October 1, 2019	3.00	1.10
October 1, 2020	5.00	0.00
October 1, 2021	5.00	0.70

---

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

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

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

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

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

	Percentage Revenue Requirement Increase <sup>(1)</sup>	Total Bill Increase <sup>(2)</sup>
Historical		
October 1, 2012	3.00%	5.00%
October 1, 2013	2.40	2.00
October 1, 2014	4.85	5.10
October 1, 2015	4.85	3.70
October 1, 2016	3.00	1.50
Projected <sup>(3)</sup>		
October 1, 2017	3.00	1.10
October 1, 2018	3.00	0.90
October 1, 2019	3.00	1.00
October 1, 2020	4.00	1.20
October 1, 2021	4.00	1.10

- (1) Change in overall revenue requirements collected from all retail customer classes from billing elements, including monthly customer service charges and wastewater usage charges (as a function of water usage). Increases are applied to billing elements to reflect the most recent cost of service study and to yield the overall revenue requirement.
- (2) Historical bill increase represents the change in system average delivered residential price. Projections are based on monthly bill at 5 Kgal.
- (3) All changes in the System's rates are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

*Rates and Charges for Water and Wastewater Services*

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

Residential customers are subject to inverted block rates. As of October 1, 2015, the first tier pricing is applied to the first 4,000 gallons used, the second tier pricing is applied to gallons greater than 4,000 and less than 16,000, and the third tier pricing is applied to gallons greater than 16,000. From October 1, 2013 through September 30, 2105, usage of 0 to 6,000 gallons represented the first tier, under which customers were charged a flat billing rate. Usage greater than 6,000 gallons but less than 20,000 gallons represented the second tier, priced greater than the first tier. All usage of 20,000 gallons and

above represented the third tier, under which customers are billed at a rate greater than the second tier. The third tier was established to recover capital impacts on the water system by high-volume users. Prior to October 1, 2011, the first tier represented 0 to 9,000 gallons and the second tier represented over 9,000 to 24,000 gallons. From October 1, 2011 to September 30, 2013, the first tier represented 0 to 7,000 gallons and the second tier represented over 7,000 gallons but less than 20,000 gallons.

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

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

#### Monthly Service Charges

Monthly customer charges are levied for the actual units of service rendered to individual customers. Customers pay a rate per thousand gallons of water consumed or wastewater treated, and all customers pay a monthly customer charge, as shown on Table 1 below. All wastewater customers are subject to rate surcharges for wastewater discharges which exceed normal domestic strength. Commercial customers are billed 95% of their water usage as wastewater while residential customers have individual maximum charges, established by consumption during non-irrigating seasons, to eliminate non-returned water from their wastewater bill. Customers are subject to fees to pay the costs associated with monitoring their discharge. Table 2 below lists the charges for water and wastewater service that became effective October 1, 2016.

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

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

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

**Water Rates:**

**Residential**

Customer Billing Charge ..... Based on meter size

Consumption Rate:

1,000 to 4,000 gallons ..... \$2.45 per 1,000  
gallons

5,000 to 16,000 gallons ..... \$3.75 per 1,000  
gallons

17,000 or more gallons..... \$6.00 per 1,000  
gallons

**Commercial**

Customer Billing Charge ..... Based on meter size

Consumption Rate ..... \$3.85 per 1,000  
gallons

**University of Florida**

Customer Billing Charge ..... Based on meter size

Consumption Rate:

On-campus facilities..... \$2.84 per 1,000  
gallons

Off-campus facilities..... \$3.67 per 1,000  
gallons

**City of Alachua<sup>(1)</sup>**

Customer Billing Charge ..... Based on meter size

Consumption Rate ..... \$1.62 per 1,000  
gallons

**Wastewater Rates:**

**Residential and Commercial**

Customer Billing Charge..... \$9.10 per month

All Usage<sup>(2)</sup> ..... \$6.30 per 1,000  
gallons

---

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

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

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

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Winter Haven	\$23.83	\$33.56	\$57.39
Orange County	\$16.26	\$41.94	\$58.20
Ocala	\$16.41	\$43.95	\$60.36
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
<b>Gainesville Regional Utilities</b>	<b>\$30.50</b>	<b>\$53.20</b>	<b>\$83.70</b>
Ft. Pierce	\$38.73	\$53.73	\$92.46
Lake City	\$34.84	\$63.12	\$97.96
Daytona Beach	\$41.95	\$58.96	\$100.91

---

<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 January 2017. Excludes all taxes, surcharges, and franchise fees. Sorted in ascending order by total charges.

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

Surcharge

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

Connection Charge Methodology

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

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

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

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

#### Infrastructure Improvement Area

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

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

#### **Natural Gas System**

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

The table below presents natural gas system base rate revenue, purchased gas adjustment revenue and total bill changes since 2012 and Management's most recent projections of future base rate revenue, purchased gas adjustment revenue and total bill changes. The percentage changes shown do not represent the percentage change in the base rate revenue, purchased gas adjustment revenue or total bill for any particular customer classification or customer. Rather, they represent the aggregate amount required to fund changes in projected non-fuel and purchased gas revenue requirements for the natural gas system.

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

	Percentage Base Rate Revenue Increase/(Decrease) <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)	(13.00)
October 1, 2013	0.85	0.00	(1.20)
October 1, 2014	4.25 <sup>(4)</sup>	4.10	4.30
October 1, 2015	4.75	(36.40)	(1.70)
October 1, 2016	9.00	(13.10)	2.10
<b>Projected<sup>(5)</sup></b>			
October 1, 2017	3.00	0.00	4.60
October 1, 2018	3.00	0.00	3.70
October 1, 2019	3.00	0.00	2.80
October 1, 2020	5.00	0.00	2.10
October 1, 2021	5.00	0.00	1.40

<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" herein.

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

<sup>(3)</sup> Historical bill increase represents the change in system average delivered residential price. Projections are based on change in monthly 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.



Rates and Charges for Natural Gas Service

The current natural gas rates, effective October 1, 2016, are provided below by class of service:

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

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

[Remainder of page intentionally left blank]

Comparison with Other Utilities

The System's average natural gas charges in effect for the month of January 2017 are compared to those for eleven other municipal and private natural gas companies (also based on rates effective October 1, 2016) in the following table. The System's gas rates are among the lowest in the State.

**Comparison of Monthly Natural Gas Bills<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	\$34.09	\$275.16	\$19,086.69
Tallahassee	\$37.50	\$367.95	\$19,871.56
City of Sunrise	\$43.71	\$369.84	\$18,773.72
Pensacola	\$58.44	\$589.87	\$15,809.24
Ft. Pierce	\$47.33	\$334.72	\$23,989.19
Central Florida Gas	\$56.53	\$446.35	\$29,499.90
Kissimmee <sup>(2)</sup>	\$45.25	\$338.01	\$27,075.40
Lakeland <sup>(2)</sup>	\$45.25	\$338.01	\$27,075.40
Orlando <sup>(2)</sup>	\$45.25	\$338.01	\$27,075.40
Tampa <sup>(2)</sup>	\$45.25	\$338.01	\$27,075.40
Clearwater	\$48.75	\$454.00	\$27,550.00

---

<sup>(1)</sup> Rates in effect for January 2017 applied to noted billing volume (excludes all taxes).

<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.

[Remainder of page intentionally left blank]

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

The following table shows comparisons of the total monthly cost for a "basket" of electric, gas, water and wastewater services for residential customers in selected Florida locales for the month of January 2017, based upon (a) actual average annual usage by the System's residential customers by category of service during the fiscal year ended September 30, 2016 and (b) standard industry benchmarks for average annual usage by residential customers.

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

	Based Upon Actual Average Annual Usage by Residential Customers <u>of the System<sup>(2)</sup></u>	Based Upon Standard Industry <u>Usage Benchmarks<sup>(3)</sup></u>
<b>Gainesville Regional Utilities</b>	<b>\$189.54</b>	<b>\$246.74</b>
Lakeland	\$171.29	\$210.74
Orlando	\$174.12	\$215.33
Tampa	\$162.99	\$211.47
Ocala	\$179.17	\$216.24
Jacksonville	\$181.75	\$223.45
Tallahassee	\$174.95	\$220.53
Clay County	\$183.53	\$221.83
Vero Beach	\$186.00	\$229.66
Kissimmee	\$170.18	\$209.22
Ft. Pierce	\$193.87	\$247.63
Pensacola	\$210.38	\$272.31

(1) Based upon rates in effect for January 2017 by the actual providers of the specified services in the indicated locales, applied to the noted billing units. Excludes public utility taxes, sales taxes, surcharges, and franchise fees.

(2) Monthly costs of service have been calculated based upon actual average annual usage by residential customers of the System during the fiscal year ended September 30, 2016, as follows: for electric service: 812 kWh; for natural gas service: 18 therms; for water service: 5,000 gallons of metered water; and for wastewater service: 4,000 gallons of wastewater treated.

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

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

Since the System's rates for electric, water and wastewater service are designed to encourage conservation, actual average usage of those utility services by residential customers of the System are

lower than the standard industry benchmarks for average annual usage by residential customers that typically are used for rate comparison purposes. As a result, the total monthly cost of electric, gas, water and wastewater service for residential customers of the System, calculated based upon actual average usage by such customers during the fiscal year ended September 30, 2016, compares favorably to what the total monthly cost of such services would have been, calculated based upon such standard industry benchmarks.

#### **SUMMARY OF COMBINED NET REVENUES**

The following table sets forth a summary of combined net revenues for the fiscal years 2013, 2014, 2015 and 2016. The information is derived from the audited financial statements of the City for the System. Such information should be read in conjunction with the City's audited financial statements for the System and the notes thereto for the fiscal years ended September 30, 2013, 2014, 2015 and 2016, referenced under "ADDITIONAL AVAILABLE INFORMATION" in the forepart of this Offering Memorandum or in prior audited financial statements.

[Remainder of page intentionally left blank]

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

<sup>(1)</sup> Includes administrative expenses.

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

Source: Prepared by the Finance Department of the System.

As described in "LITIGATION" in the forepart of this Offering Memorandum, there is ongoing binding arbitration between GREC and the City. Relating thereto, the City and GREC have initiated preliminary discussions regarding the potential purchase of the GREC biomass power generation plant

by the City only if it would result in significant fiscal savings for the System. Such potential savings would be expected to derive from termination of the PPA, more efficient operation of the biomass power generation plant, and a re-engineering/re-purposing of such plant to some degree which could provide future CIP relief by alleviating some of the otherwise necessary capital improvements at Deerhaven. For more information about the capital improvement program for the Electric System, see "THE ELECTRIC SYSTEM—Capital Improvement Program" which does not take into account any possible reductions in capital improvement program needs from any such purchase. Such discussions have led to the development of a draft Memorandum of Understanding (MOU) which, amongst other things, includes a proposed asset purchase price of \$750 million. Such MOU has not been finalized, and once finalized, is subject to City Commission approval. Such purchase, while possible, is thus speculative and not imminent. However, if such purchase does occur, historical debt service coverage levels shown in the table above would not be indicative of anticipated future debt service coverage levels in effect after such purchase, in part, because of the debt which would be necessary to finance the costs of such purchase. The amount of such coverage level decrease is unknown at this very early and speculative stage of discussion. In any event, such purchase is not expected to adversely affect the City's ability to pay debt service on the Senior Lien Bonds and the Subordinated Indebtedness, or to otherwise comply with any of its obligations under the Senior Bond Resolution or the Subordinated Bond Resolution, including the rate covenants.

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 under "ADDITIONAL AVAILABLE INFORMATION" in the forepart of this Offering Memorandum. In addition, for a discussion of derivative transactions entered into by the System, see Note 9 to the audited financial statements of the System "Hedging Activities" referenced under "ADDITIONAL AVAILABLE INFORMATION" in the forepart of this Offering Memorandum.

### **ADDITIONAL FINANCING REQUIREMENTS**

The System's current six-year capital improvement program requires a total of approximately \$393.4 million in capital expenditures in the fiscal years ending September 30, 2017 through and including 2022, and does not include the GREC biomass power generation plant purchase proposal described above. Such amount is expected to be funded in part from remaining construction funds from previous financings, construction fund interest earnings, Revenues, and approximately \$123.5 million of future additional Senior Lien Bonds and/or Subordinated Indebtedness (including additional commercial paper notes) that the City expects will be during that timeframe.

## MANAGEMENT'S DISCUSSION OF SYSTEM OPERATIONS

### Results of Operations

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

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

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

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

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

Natural gas fuel cost decreased by approximately \$1.2 million (12%) between the fiscal years ended September 30, 2014 and 2015, and increased by approximately \$410 thousand (4%) between the fiscal years ended September 30, 2015 and 2016. This fluctuation in gas cost is reflective of the natural gas commodity market prices during the same timeframe. Since these costs are passed along to customers as part of the purchased gas adjustment charge each month, any natural gas cost increases or decreases are offset by purchased gas adjustment revenues. The base rate revenue requirement for the natural gas system remained unchanged for the fiscal year ended September 30, 2013, with a nominal increase of 0.85% for the fiscal year ended September 30, 2014. For each of the fiscal years ended September 30, 2015 and 2016, base rate revenue requirements for the gas system were increased by 4.75% and for fiscal year 2017 the base rate revenue requirement was increased by 9.0%. For the fiscal year ended September 30,

2014, the natural gas system withdrew approximately \$1.0 million from the Rate Stabilization Fund. For the fiscal year ended September 30, 2015, the natural gas system deposited approximately \$1.6 to the Rate Stabilization Fund. For the fiscal year ended September 30, 2016, the natural gas system withdrew approximately \$2.0 million from the Rate Stabilization Fund. In order to recover costs associated with the remediation of soil contamination caused by the operation of an MGP, the City established a per therm charge as part of the gas system's customer rate in the fiscal year ended September 30, 2003. The estimated remaining cost to be recovered is approximately \$17.0 million. See "THE NATURAL GAS SYSTEM – Manufactured Gas Plant" herein. The MGP has billed at a rate of \$0.0556 per therm since October 1, 2014.

Water system sales are impacted by seasonal rainfall. For the fiscal year ended September 30, 2012 and 2016, sales decreased by an average annual rate of 1.9% and customers grew by 0.8%. Revenues from water sales increased by approximately \$3,175,682 for the fiscal year ended September 30, 2012 and 2016. The water revenue increases were primarily the result of rate increases, kept moderate by low customer growth and slow sales growth due to price sensitivity and conservation efforts.

Water base rate revenue requirements were increased by 3.5% in the fiscal year ended September 30, 2013, 3.85% in the fiscal year ended September 30, 2014, 3.75% in each of the fiscal years ended September 30, 2015 and 2016, and for the fiscal year ending September 30, 2017, the base rate revenue requirement was increased by 3.0%. For the fiscal years ended September 30, 2014 and 2015, the water system contributed approximately \$540,000 and \$2.4 million, respectively, to the Rate Stabilization Fund. For the fiscal year ended September 30, 2016, the water system deposited approximately \$3.3 million to the Rate Stabilization Fund.

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

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

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



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

<b>Debt Service Coverage</b>						
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Net Revenues	153,547,000	149,550,000	141,497,780	130,842,529	137,657,063	140,800,171
Total Debt Service including Swaps	70,268,000	69,794,000	67,889,965	60,042,332	61,638,702	62,027,441
Debt Service Coverage Ratio	2.19	2.14	2.08	2.18	2.23	2.27

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

#### **Transfers to General Fund**

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

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

[Remainder of page intentionally left blank]

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

<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%

<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, 2017 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>
2017	\$35,456,059	2.3%
2018	36,009,861	1.6%
2019	36,571,971	1.6%
2020	37,142,512	1.65%

Source: Prepared by the Finance Department of the System.

### **Investment Policies**

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

### **Debt Management Policy**

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

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

## Competition

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

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

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

services to several nearby cities in the County. See "THE NATURAL GAS SYSTEM – Service Area" herein for a discussion of the status of the System's franchise agreement to provide natural gas service in the County.

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity Support for the System's Variable Rate Bonds

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

<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	Bank of Montreal	July 7, 2017*
2012B	Sumitomo Mitsui Banking Corporation	January 12, 2018

---

\*A request for proposal for replacement is in process.

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

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

### Liquidity Support for the System's Commercial Paper Program

The System also has entered into separate credit agreements with certain commercial banks in order to provide liquidity support for the CP Notes. The CP Notes constitute Subordinated Indebtedness under the Senior Bond Resolution. If, on any date on which a CP Note of a particular series matures, the System is not able to issue additional CP Notes of such series to pay such maturing CP Note, subject to the satisfaction of certain conditions, the applicable bank is obligated to honor a drawing under its credit agreement in an amount sufficient to pay the principal of such maturing CP Note. The credit agreements for the Series C Notes and the Series D Notes currently have stated termination dates of November 30, 2018 and August 28, 2017, respectively, which dates are subject to extension in the sole discretion of the respective banks. The System will either renew or replace the credit agreement with the Series D Notes in the forthcoming months.

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

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

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

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

### Interest Rate Swap Transactions

The System has entered into interest rate swap transactions with three different counterparties under interest rate swap master agreements with respect to the 2005 Series B Bonds, the 2005 Series C Bonds, the 2006 Series A Bonds, the 2007 Series A Bonds and the 2008 Series B Bonds, as well as the Series C Notes. The current counterparties are Merrill Lynch Capital Services, Inc., Goldman Sachs Mitsui Marine Derivative Products, L.P. and JP Morgan Chase Bank, National Association. For additional information concerning those interest rate swap transactions, see the footnotes to the table under "APPENDIX F – Table of Outstanding Debt" attached hereto.

Under the master agreements, the interest rate swap transactions entered into pursuant to such master agreements are subject to early termination upon the occurrence of certain "events of default" and upon the occurrence of certain "termination events." One such "termination event" with respect to the System is a suspension or withdrawal of certain credit ratings with respect to the System, or a downgrade of such ratings below the levels set forth in the master agreement or in the confirmation related to a particular interest rate swap transaction. Upon the early termination of an interest rate swap transaction, the System may owe the applicable counterparty a termination payment, the amount of which could be substantial. The amount of any such potential termination payment would be determined in the manner

provided in the applicable master agreement and would be based primarily upon prevailing market interest rate levels and the remaining term of the interest rate swap transaction at the time of termination. In general, the ratings triggers on the part of the System contained in the master agreements range from (x) if any two ratings on the Bonds are below "Baa2" by Moody's and/ or "BBB" by S&P and/ or "BBB" by Fitch to (y) if the City fails to have at least one rating on the Bonds of "Baa3" by Moody's, "BBB-" by S&P or "BBB-" by Fitch.

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

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

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

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

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

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. U.S. Treasury securities are examples of Level 1 inputs.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. U.S. agencies, corporate bonds and financial hedges are examples of Level 2 inputs.



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

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

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

- Investments in debt securities are valued using Level 2 measurements because the valuations use interest rate curves and credit spreads applied to the terms of the debt instrument (maturity and coupon interest rate) and consider the counterparty credit rating.
- Commodity derivatives, such as futures, swaps and options, which are ultimately settled using prices at locations quoted through clearinghouses are valued using level 1 inputs.
- Other hedging derivatives, such as swaps settled using prices at locations other than those quoted through clearinghouses and options with strike prices not identically quoted through a clearinghouse, are valued using Level 2 inputs. For these instruments, fair value is based on pricing algorithms using observable market quotes

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

The City entered into the 2005 Series C Swap Transaction in order to fix synthetically, subject to the "basis risk" described in such footnote, the interest rate on the 2005 Series C Bonds. Since the Refunded Tax-Exempt 2005 Bonds were refunded through the issuance of the variable rate 2012 Series B Bonds, the City left that portion of the 2005 Series C Swap Transaction allocable to the Refunded Tax-Exempt 2005 Bonds outstanding following the issuance of the 2012 Series B Bonds, as a partial hedge against the interest rates to be borne by the 2012 Series B Bonds, although such portion of the 2005 Series C Swap Transaction does not specifically match, in terms of its notional amount and amortization, the 2012 Series B Bonds. In addition, the City entered into the 2006 Series A Swap Transaction in order to fix synthetically, subject to the "basis risk" described in such footnote, the interest rate on the 2006 Series A Bonds. Since the Refunded Tax-Exempt 2006 Bonds were refunded through the issuance of the variable rate 2012 Series B Bonds, the City left that portion of the 2006 Series A Swap Transaction allocable to the Refunded Tax-Exempt 2006 Bonds outstanding following the issuance of the 2012 Series B Bonds, as a partial hedge against the interest rates to be borne by the 2012 Series B Bonds, although such portion of the 2006 Series A Swap Transaction does not specifically match, in terms of its notional amount and amortization, the 2012 Series B Bonds.

See Note 9 to the audited financial statement of the System "Hedging Activities" for the fiscal year ended September 30, 2016 under "ADDITIONAL AVAILABLE INFORMATION" in the forepart of this Offering Memorandum for a discussion of the various risks borne by the City relating to interest rate swap transactions.

### Coal Supply Agreements

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

### GREC LLC PPA

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

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

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

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

## **FACTORS AFFECTING THE UTILITY INDUSTRY**

### **General**

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

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

## Environmental and Other Natural Resource Regulations

The System and its operations are subject to federal, state and local environmental regulations which include, among other things, control of emissions of particulates, SO<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 (including, particularly, GREC), from which the System purchases output, services, commodities and other materials). There is no assurance that the facilities in operation, under construction or contemplated will always remain subject to the regulations currently in effect or will always be in compliance with future regulations. Compliance with applicable regulations could result in increases in the costs of construction and/or operation of affected facilities, including associated costs such as transmission and transportation, as well as limitations on the operation of such facilities. Failure to comply with regulatory requirements could result in reduced operating levels or the complete shutdown of those facilities not in compliance as well as the imposition of civil and criminal penalties.

Increasing concerns about climate change and the effects of GHGs on the environment have resulted in EPA finalizing on August 3, 2015 carbon regulations, the Clean Power Plan, for existing power plants. Currently, the Clean Power Plan is being litigated and a ruling is not expected until the fall of 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 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 October 5, 2012, the EPA filed a petition for rehearing *en banc* with the D.C. Circuit Court requesting that the full court reconsider the August 21, 2012 decision. That request was denied. On Friday, March 29, 2013, the Department of Justice and several environmental groups filed Petitions for *certiorari*, asking the Supreme Court to accept the case and overturn CSAPR. The Supreme Court granted *certiorari* on June 24, 2013. On April 29, 2014, the Supreme Court reversed part of the D.C. Circuit Court's decision, upholding parts of the CSAPR program, and remanded other issues back to the D.C. Circuit Court for further proceedings. The D.C. Circuit Court set a deadline of July 3, 2014 for the parties to brief on how they would like to proceed with the remaining issues and lawsuits. On June 26, 2014, the EPA filed a Motion with the D.C. Circuit Court to lift the stay of the CSAPR. EPA has indicated that, at this time, CAIR remains in place and that no immediate action by the states or affected sources is expected. EPA is reviewing the Supreme Court's decision and is evaluating next steps, including how to address compliance deadlines that passed during the ongoing litigation and stay. On October 23, 2014, the U.S. Court of Appeals for the District of Columbia Circuit ("D.C. Circuit") granted EPA's request that the court lift the stay of the Cross State Air Pollution Rule (CSAPR). While the court did not specifically address EPA's request that the court extend CSAPR's compliance deadlines by three years, the System believes that, by granting EPA's motion, the court granted EPA's request.

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

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

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

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

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

- *Murray Energy Corp. v. EPA*, No. 16-1127
- *ARIPPA v. EPA*, No. 16-1175

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

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

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

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

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

#### Effluent Limitation Guidelines

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

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

EPA did not finalize the proposed best management practices (BMP) for surface impoundments containing coal combustion residuals (e.g., ash ponds and FGD ponds) in order to avoid "unnecessary

duplication" with EPA's final rule pertaining to coal combustion residuals, 80 Fed. Reg. 21,302 (April 17, 2015).

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

#### 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. 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.

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

The reasonable further progress (RFP) section of Florida's regional haze state implementation plan, which has been approved by EPA, applies to DH 2. The System has voluntarily requested a cap on SO<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 new rule and all are in full compliance.

#### **Climate Change**

On June 25, 2013, President Obama issued a Presidential Memorandum directing the EPA to work expeditiously to complete GHG standards for the power sector. The agency is using its authority

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

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

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

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

### **Coal Combustion Products**

The Environmental Protection Agency (EPA) published a final rule (40 CFR 257), effective October 14, 2015, to regulate the disposal of coal combustion residuals (CCR) as solid waste under subtitle D of the Resource Conservation and Recovery Act (RCRA). The rule includes national minimum criteria for existing and new CCR landfills and existing and new CCR surface impoundments. GRU is



subject to the requirements of the promulgated rule that are applicable to CCR ponds and landfill at Deerhaven.

### **Storage Tanks**

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

### **Remediation Sites**

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

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

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

See "THE NATURAL GAS SYSTEM – Manufactured Gas Plant" and "THE WATER SYSTEM – Water Treatment and Supply" herein for a discussion of other remediation issues.

## Water Use Restrictions

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

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

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

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

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

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

## **Manufactured Gas Plant**

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

## **Wholesale and Retail Electric Restructuring**

### *Energy Policy Act of 2005*

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

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

Electric utilities registered as a Balancing Authority or Transmission Operator are required to undergo an on-site audit for compliance with the reliability standards once every three years. The System is registered as both a Balancing Authority and a Transmission Operator and is therefore subject to the 3-year on-site audit cycle. In addition to the NERC O&P reliability standards, Version 5 of NERC's Critical Infrastructure Protection (CIP) standards became applicable to GRU July 1, 2016. Compliance with these standards helps ensure the cyber and physical security of GRU's Bulk Electric System (BES). On February 22-23, 2017, FRCC compliance auditors conducted an on-site audit for compliance with the standards and requirements associated with the System's functions within the Florida bulk power system

as listed above, and no violations were found. The System's next on-site reliability compliance audit is anticipated to occur in November, 2017.

#### FERC Order 779

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

#### FERC Order 1000

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

##### Planning element reforms:

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

##### Cost allocation reforms:

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

##### Developer reforms:

- With certain limitations, public utility providers must remove from their tariffs a federal right of first refusal for a regional transmission plan needs solution for the purposes of cost allocation.
- The reliability and service requirements of incumbent transmission providers may be dependent upon regional transmission infrastructure. The order requires the

reevaluation of the regional transmission plan and the identification of alternative transmission solutions should the delay in infrastructure development adversely impact system reliability and/or the delivery of required services.

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

## APPENDIX C

### FORM OF HOLLAND & KNIGHT OPINION (ADDITIONAL SERIES C NOTES)

[Date of Delivery]

City of Gainesville, Florida  
Gainesville, Florida

Re: City of Gainesville, Florida Utility System Commercial Paper Notes, Series C

Ladies and Gentlemen:

We have acted as Note Counsel to the City of Gainesville, Florida (the "Issuer") in connection with the issuance and sale by the Issuer from time to time of up to \$20,250,000 in aggregate principal amount of its Utility System Commercial Paper Notes, Series C issued on and after the date hereof to finance the Project (as defined in the Certificate as to Tax, Arbitrage and Other Matters of the Issuer dated March 14, 2017, the "Tax Certificate") and Series C Commercial Paper Notes (as defined in the Tax Certificate") issued from time to time to refinance such Project all pursuant to a single separate program under Section 1.150-1(c)(4) of the Treasury Department Regulations (the "Additional Series C Commercial Paper Notes"). On the date hereof, the Issuer has issued at least \$50,000 in aggregate principal amount of the Additional Series C Commercial Paper Notes. No opinion is given with respect to the Series C Commercial Paper Notes that do not constitute Additional Series C Notes, including, without limitation those that are subject to the approving legal opinion of Orrick, Herrington & Sutcliffe LLP, New York, New York delivered April 25, 2008.

All terms used herein in capitalized form and not otherwise defined herein shall have the same meanings as ascribed to them under the Amended and Restated Utilities System Revenue Bond Resolution adopted by the Issuer on January 30, 2003, as amended and supplemented (the "Bond Resolution") including as supplemented by the Amended and Restated Subordinated Utilities System Revenue Bond Resolution adopted by the Issuer on December 8, 2003, as amended and supplemented (the "Subordinated Bond Resolution") as the Subordinated Bond Resolution has been supplemented by the Second Supplemental Subordinated Utilities System Revenue Bond Resolution adopted by the Issuer on October 5, 1992, as amended and supplemented, including as supplemented by Resolution No. 160562 adopted by the Issuer on December 1, 2016 (collectively, the "Second Supplemental Subordinated Resolution" and together with the Bond Resolution and the Subordinated Bond Resolution, the "Resolutions").

The Additional Series C Commercial Paper Notes have been issued in fully registered form and upon the terms and conditions set forth and provided for in the Resolutions.

Subject and pursuant to the terms of the Resolutions, the principal of, premium, if any, and interest on the Additional Series C Commercial Paper Notes shall be payable from and secured by a lien upon and pledge of (X) amounts on deposit in the Subordinated Indebtedness Fund established under the Subordinated Bond Resolution, subject to the provisions of the Bond Resolution and the Subordinated Bond Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Resolution and the Subordinated Bond Resolution, and (Y) amounts on deposit in the

Series C CP Note Payment Account established under the Second Supplemental Subordinated Resolution, subject to the provisions of the Second Supplemental Subordinated Resolution (collectively, the "Pledged Funds"); provided, however, that in the case of the Subordinated Indebtedness Fund, (i) such pledge and assignment is on a parity with (a) the pledge and assignment thereof created by the Subordinated Resolution as security for the Subordinated Bonds, and (b) the pledge and assignment thereof created by any Supplemental Resolution as security for any Parity Subordinated Indebtedness, and (ii) such pledge and assignment is subordinate in all respects to (a) the pledge and assignment of the Trust Estate created by the Bond Resolution as security for Bonds, and (b) any pledge and assignment of the Trust Estate created as security for any Parity Hedging Contract Obligations.

The Additional Series C Commercial Paper Notes, when issued and delivered in accordance with the Subordinated Resolution, will constitute "Subordinated Indebtedness" for purposes of the Bond Resolution and will constitute "Subordinated Bonds" for purposes of the Subordinated Bond Resolution. The Issuer heretofore has issued certain other Subordinated Bonds under the Subordinated Bond Resolution, and the Issuer has reserved the right to issue additional Subordinated Bonds and Parity Subordinated Indebtedness on the terms and conditions and for the purposes stated in the Bond Resolution. Under the provisions of the Subordinated Bond Resolution, any such Subordinated Bonds or Parity Subordinated Indebtedness may rank equally as to security and payment with the Additional Series C Commercial Paper Notes and the outstanding Utility System Commercial Paper Notes, Series C and Utilities System Commercial Paper Notes, Series D (Federally Taxable).

In no event shall the Additional Series C Commercial Paper Notes or any interest or premium thereon be payable from the ad valorem tax revenues of the Issuer. The Additional Series C Commercial Paper Notes 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 Additional Series C Commercial Paper Notes 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 Subordinated Bond Resolution.

The description of the Additional Series C Commercial Paper Notes in this opinion and other statements concerning the terms and conditions of the issuance of the Additional Series C Commercial Paper Notes do not purport to set forth all of the terms and conditions of the Additional Series C Commercial Paper Notes or of any other document relating to the issuance of the Additional Series C Commercial Paper Notes, but are intended only to identify the Additional Series C Commercial Paper Notes 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 used in connection with the sale or delivery of the Additional Series C Commercial Paper Notes.

In rendering the opinions set forth below, we have examined certified copies of the Bond Resolution, the Subordinated Bond Resolution, the Second Supplemental Subordinated Resolution and various other agreements, certificates and opinions delivered in connection therewith, and are relying on the covenants and agreements of the Issuer contained therein, including, without limitation, 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 Additional Series C Commercial Paper Notes 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 Additional Series C Commercial Paper Notes. In addition, we have examined and relied upon the opinion of Nicolle Shalley, Esq., City Attorney to the Issuer, as to the due organization and valid existence of the Issuer, the due adoption of the Bond Resolution, the Subordinated Bond Resolution, the Second Supplemental Subordinated Resolution and the due authorization, execution and delivery of the Additional Series C Commercial Paper Notes and all other documents associated with the issuance thereof by the Issuer and the compliance of the Issuer with all conditions precedent to the issuance of the Additional Series C Commercial Paper Notes. We have also examined and relied upon 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 or contained 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 municipal corporation of the State of Florida, duly organized and validly existing under the laws of the State of Florida.

(ii) The Resolutions constitute valid and legally binding obligations of the Issuer, enforceable in accordance with the laws of the State of Florida.

(iii) The Additional Series C Commercial Paper Notes when issued and delivered will be 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 Resolutions, 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 the Resolutions.

(iv) The interest on the Additional Series C Commercial Paper Notes 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 imposed by the Code; 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 Additional Series C Commercial Paper Notes in a manner that would cause the Additional Series C Commercial Paper Notes to be classified as private activity bonds under Section 141(a) 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 Additional Series C Commercial Paper Notes from gross income for federal income tax purposes. Failure of the Issuer to comply with such requirements could cause the interest on the Additional Series C Commercial Paper Notes to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Additional Series C Commercial Paper Notes. 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 Additional Series C Commercial Paper Notes. We express no opinion regarding any state tax consequences of acquiring, carrying, owning or disposing of the Additional Series C Commercial Paper Notes or with respect to the issuance of any other Utility System Commercial Paper Notes, Series C previously issued by the Issuer. Owners of the Additional Series C Commercial Paper Notes should consult their tax advisors regarding any state tax consequences of owning the Additional Series C Commercial Paper Notes.

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.

This opinion is rendered solely for the benefit of and may be relied upon only by the holders of Additional Series C Commercial Paper Notes, who may continue to rely on this opinion only to the extent that: (i) there is no change in law (whether of the Code or in the judicial or Internal Revenue Service interpretation thereof) that may adversely affect the validity of the Additional Series C Commercial Paper Notes or the exclusion of the interest thereon from the gross income of the holders thereof for federal income tax purposes, (ii) the representations, agreements and covenants contained in the Resolutions and the Issuer's Certificate as to Tax, Arbitrage, and Other Matters concerning the Additional Series C Commercial Paper Notes, as the same may be supplemented and amended from time to time with our knowledge and consent, remain true and accurate and are complied with, (iii) there has not been delivered to the Issuer an opinion of this firm or any other firm of more recent date with respect to the matters referred to herein, and (iv) neither this opinion nor the opinion of counsel to the Issuer on which we have relied has been expressly withdrawn (unless replaced by a subsequent opinion) as evidenced by a letter of this firm to the Issuer and the Issuing Agent or by a letter of counsel to the Issuer to this firm and the Issuing Agent. Nothing contained in this letter shall be construed as any undertaking on our part

to monitor any changes in applicable law or to monitor or confirm the accuracy of any such representations or warranties or compliance with any such agreements or covenants. In addition, we undertake no duty to expressly advise any Noteholder of any change or development of which we become aware that may adversely affect this letter.

The scope of our engagement in relation to the issuance of the Additional Series C Commercial Paper Notes 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 Offering Memorandum or any exhibits or appendices thereto or any other offering material relating to the Additional Series C Commercial Paper Notes and therefore express no opinion in regard thereto. In addition, we have not been engaged to and therefore express no opinion regarding the perfection or priority of the lien on the Pledged Funds or as to the compliance by the Issuer or the Dealer with any federal or state registration requirements or securities statutes, regulations or rulings with respect to the offer, sale or distribution of the Additional Series C Commercial Paper Notes.

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

## APPENDIX D

### INFORMATION REGARDING SERIES C BANK AND THE SERIES C CREDIT AGREEMENT

Bank of America, N.A. (the "Series C Bank") is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Series C Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (the "*Corporation*") and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of December 31, 2016, the Series C Bank had consolidated assets of \$1.68 trillion, consolidated deposits of \$1.334 trillion and stockholder's equity of \$206.21 billion based on regulatory accounting principles.

The Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2016, together with its subsequent periodic and current reports filed with the Securities and Exchange Commission (the "SEC").

Filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at <http://www.sec.gov>, which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning the Corporation and the Series C Bank is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the referenced documents and financial statements referenced therein.

The Series C Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the SEC pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of the Series C Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications  
100 North Tryon Street, 18<sup>th</sup> Floor  
Charlotte, North Carolina 28255  
Attention: Corporate Communication

PAYMENTS OF PRINCIPAL AND INTEREST ON THE SERIES C NOTES WILL BE MADE FROM PAYMENTS MADE BY THE SERIES C BANK UNDER THE SERIES C CREDIT AGREEMENT. ALTHOUGH THE SERIES C CREDIT AGREEMENT IS A BINDING OBLIGATION OF THE SERIES C BANK, THE SERIES C NOTES ARE NOT DEPOSITS OR OBLIGATIONS OF THE CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE SERIES C NOTES ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The delivery of this information shall not create any implication that there has been no change in the affairs of the Corporation or the Series C Bank since the date of the most recent filings referenced herein, or that the information contained or referred to in this APPENDIX D is correct as of any time subsequent to the referenced date.

A copy of the Series C Credit Agreement is attached hereto and made part of this APPENDIX D.

---

**CREDIT AGREEMENT**

between

**CITY OF GAINESVILLE, FLORIDA**

**and**

**BANK OF AMERICA, N.A.**

Dated November 30, 2015

---

## TABLE OF CONTENTS

	Page #
<b>ARTICLE I DEFINITIONS</b> .....	1
SECTION 1.01    Definitions.....	1
SECTION 1.02    Accounting Terms and Determinations .....	7
SECTION 1.03    Interpretation.....	7
<b>ARTICLE II COMMERCIAL PAPER OPERATIONS</b> .....	8
SECTION 2.01    Issuance of Commercial Paper Notes .....	8
<b>ARTICLE III THE CREDITS</b> .....	9
SECTION 3.01    Commitment to Lend .....	9
SECTION 3.02    Method of Borrowing .....	11
SECTION 3.03    Bank Bond .....	12
SECTION 3.04    Maturity of Loans .....	12
SECTION 3.05    Interest Rates.....	12
SECTION 3.06    Fees .....	13
SECTION 3.07    Optional Termination or Reduction of Commitment.....	13
SECTION 3.08    Mandatory Termination of Commitment.....	14
SECTION 3.09    Optional Prepayments.....	14
SECTION 3.10    General Provisions as to Payments .....	14
SECTION 3.11    Computation of Interest and Fees .....	15
<b>ARTICLE IV CONDITIONS</b> .....	15
SECTION 4.01    Effectiveness .....	15
SECTION 4.02    Revolving Credit Borrowings .....	17
SECTION 4.03    Term Borrowing.....	17
<b>ARTICLE V REPRESENTATIONS AND WARRANTIES</b> .....	17
SECTION 5.01    Financial Condition.....	18
SECTION 5.02    No Change .....	18
SECTION 5.03    Organization; Compliance with Law .....	18
SECTION 5.04    Power; Authorization; Enforceable Obligations .....	18
SECTION 5.05    No Legal Bar.....	19
SECTION 5.06    No Material Litigation .....	19
SECTION 5.07    No Default.....	19
SECTION 5.08    Security, Etc.....	19
SECTION 5.09    Federal Reserve Regulations.....	19
SECTION 5.10    ERISA Matters.....	19
SECTION 5.11    Sovereign Immunity.....	19
SECTION 5.12    Full Disclosure .....	20
SECTION 5.13    Incorporation by Reference.....	20
SECTION 5.14    No Proposed Legal Changes .....	20
SECTION 5.15    Environmental Laws .....	20
SECTION 5.16    Rate Increases .....	20

<b>ARTICLE VI COVENANTS</b>	20
SECTION 6.01 Resolutions	20
SECTION 6.02 Financial and Other Information	21
SECTION 6.03 Inspection of Property; Discussions	21
SECTION 6.04 Notices	21
SECTION 6.05 Resolutions, Etc.	22
SECTION 6.06 Payment of Bank Bond	23
SECTION 6.07 Further Assurance	23
SECTION 6.08 Power to Fix and Collect Rates, Fees and Charges	23
SECTION 6.09 Replacement of this Agreement	23
SECTION 6.10 Sovereign Immunity	23
SECTION 6.11 Incorporation by Reference	23
SECTION 6.12 Rating of Bank Bond	25
SECTION 6.13 Compliance with Laws	25
SECTION 6.14 Dealer and Issuing Agent	25
SECTION 6.15 Disclosure of Bank	25
SECTION 6.16 Maintenance of Ratings	25
SECTION 6.17 Repudiation	26
<b>ARTICLE VII TENDER EVENTS</b>	26
SECTION 7.01 Tender Events	26
SECTION 7.02 Effect of Tender Event	29
<b>ARTICLE VIII CHANGE IN CIRCUMSTANCES</b>	30
SECTION 8.01 Increased Cost and Reduced Return	30
SECTION 8.02 Taxes	31
<b>ARTICLE IX MISCELLANEOUS</b>	32
SECTION 9.01 Notices	32
SECTION 9.02 No Waivers	34
SECTION 9.03 Expenses; Documentary Taxes; Indemnification	34
SECTION 9.04 Amendments and Waivers	35
SECTION 9.05 Assignments, Participations, Etc.	35
SECTION 9.06 Governing Law	37
SECTION 9.07 Counterparts; Integration	37
SECTION 9.08 Waiver of Jury Trial	37
SECTION 9.09 Jurisdiction; Venue	37
SECTION 9.10 Patriot Act Notice	37
SECTION 9.11 Arm's Length Transaction	37
Exhibit A	Form of Notice of Revolving Credit Borrowing
Exhibit B	Form of Notice of Term Borrowing
Exhibit C	Form of No-Issuance Instructions
Exhibit D-1	Form of Opinion of the Office of the City Attorney of the City
Exhibit D-2	Form of Opinion of Bond Counsel for the City
Exhibit E	Form of Opinion of Counsel to the Bank

## **CREDIT AGREEMENT**

This CREDIT AGREEMENT is dated November 30, 2015, and is between the CITY OF GAINESVILLE, FLORIDA (the "City") and BANK OF AMERICA, N.A. (the "Bank").

WHEREAS, the City is a municipal corporation duly organized and existing under the laws of the State of Florida;

WHEREAS, the City is authorized pursuant to the laws of the State of Florida to own, manage and operate the System (as defined in the Bond Resolution (as defined below));

WHEREAS, pursuant to the Amended and Restated Subordinated Utilities System Revenue Bond Resolution adopted by the City on December 8, 2003, as amended and supplemented, and as particularly supplemented by the Second Supplemental Subordinated Utilities System Revenue Bond Resolution adopted by the City on October 5, 1992, as amended, authorized the issuance of the City's Subordinated Utilities System Revenue Bonds, the City has authorized the issuance from time to time of up to \$85,000,000 aggregate outstanding principal amount of Utilities System Commercial Paper Notes, Series C (the "Commercial Paper Notes"); and

WHEREAS, the Bank has agreed to make loans to the City, solely on the terms and conditions set forth herein, to enable the City to pay the Commercial Paper Notes upon maturity;

NOW THEREFORE, the parties hereto agree as follows:

### **ARTICLE I DEFINITIONS**

#### **SECTION 1.01    Definitions.**

(a) Capitalized terms used herein but not otherwise defined in subsection (b) below or elsewhere herein shall have the meanings given to them in the Subordinated Bond Resolution (as defined below).

(b) The following terms, as used herein, have the following meanings:

"Affiliate" means as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. A Person shall be deemed to control another Person if the controlling Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the other Person, whether through the ownership of voting securities, by contract or otherwise. Without limitation, any director, executive officer or beneficial owner of 5% or more of the equity of a Person shall, for the purposes of this Agreement, be deemed to control the other Person.

"Agreement" means this Credit Agreement, dated November 30, 2015, between the City and the Bank, as the same may be amended or modified from time to time.



"Authorized Officer of the City" shall have the meaning ascribed thereto in the Bond Resolution.

"Bank Bond" means the Utilities System Subordinated Bank Bond, Series A of the City to be delivered to the Bank pursuant to Section 4.01(c) hereof, evidencing the obligation of the City to repay the Loans.

"Bank Rate" means, for each day of determination with respect to each (A) Revolving Credit Loan, (i) for the period from and including the initial date of such Loan to and including the 90th calendar day following such initial date of such Loan, the Base Rate and (ii) the period from and including the 91st calendar day following the initial date of such Loan and thereafter until such Loan is due and payable, the Base Rate plus 1% and (B) Term Loan, the Base Rate plus 1%. Notwithstanding the foregoing, from and after the earlier of (i) the date amounts are owed hereunder, but only so long as not paid when due, and (ii) during the occurrence and continuance of a Tender Event, all amounts owed hereunder (including with respect to the Loans) shall bear interest at the Default Rate. At no time shall the Bank Rate with respect to any Loan be less than the interest rate borne by any outstanding Commercial Paper Notes.

"Base Rate" means, for any day, a rate per annum equal to the highest of (a) Prime Rate plus 1.00%, (b) Federal Funds Rate plus 2%, and (c) 7%. Each change in the Base Rate shall take effect simultaneously with the corresponding change or changes in the Prime Rate or Federal Funds Rate, as the case may be.

"Bond Resolution" means the Amended and Restated Utilities System Revenue Bond Resolution adopted by the City on January 30, 2003, as amended.

"Bonds" shall have the meaning ascribed thereto in the Bond Resolution.

"Business Day" means any day, other than a Saturday or Sunday, on which the office of the City, the office of the Trustee and the office of the Bank specified in or pursuant to Section 9.01 hereof are open for business during their respective normal business hours.

"Commitment" means the amount of \$85,000,000, as such amount may be reduced from time to time pursuant to Sections 3.07 and 3.08.

"Contractual Obligation" means, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or undertaking to which such Person is a party or by which it or any of its property is bound.

"Dealer" means Goldman, Sachs & Co., in its capacity as dealer for the Commercial Paper Notes under the Dealer Agreement, and its successors in such capacity.

"Dealer Agreement" means the Dealer Agreement Relating to Utilities System Commercial Paper Notes, Series C, dated as of October 1, 1992, between the City and the Dealer, as amended and supplemented from time to time in accordance with the terms thereof and hereof.

"Default Rate" means a per annum rate of interest equal to the Base Rate then in effect plus 4%.

"EMMA" means the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System or any successor thereto.

"Dodd-Frank Act" means the Dodd Frank Wall Street Reform and Consumer Protection Act and all regulations, guidelines and directions in connection therewith, as the same may be amended from time to time.

"Effective Date" means the date this Agreement becomes effective in accordance with Section 4.01.

"Environmental Laws" means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, or rules, and all judgments, orders, decrees, permits, concessions, grants, franchises, licenses, permits, agreements or governmental restrictions relating to air, water or land pollution, wetlands, or the protection of the environment or the release of any materials into the environment, including air, water or land, and those related to Hazardous Materials, air emissions and discharges to waste or public systems.

"Environmental Liability" means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the System directly or indirectly resulting from or based upon (a) violation of any Environmental Laws, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

"Event of Default" is defined in the Subordinated Bond Resolution.

"Federal Funds Rate" means, for any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; *provided* that: (a) if such day is not a Business Day, then the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day; and (b) if no such rate is so published on such next succeeding Business Day, then the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of one hundredth of one percent) charged to the Bank on such day on such transactions as determined by the Bank. Each determination of the Federal Funds Rate by the Bank shall be deemed conclusive and binding on the City absent manifest error.

"Fee Letter" has the meaning set forth in Section 3.06.

"Financing Documents" means the Bond Resolution, the Subordinated Bond Resolution, the Issuing and Paying Agency Agreement, the Dealer Agreement, the Fee Letter, the Bank Bond and the Commercial Paper Notes.

"Fitch" means Fitch, Inc. d/b/a Fitch Ratings and its successors and assigns, and if such corporation (i) shall be dissolved or liquidated or (ii) shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized statistical rating organization (other than Moody's or S&P) designated by the Bank and approved by the City if such an organization shall exist.

"GAAP" has the meaning set forth in Section 1.02.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Hazardous Materials" means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"Immediate Tender Event" has the meaning set forth in Section 7.01.

"Indebtedness" means, as to any Person, at a particular time, (a) indebtedness for borrowed money or for the deferred purchase price of property or services in respect of which such Person is liable, contingently or otherwise, as obligor, guarantor or otherwise, or in respect of which such Person otherwise assures a creditor against loss and (b) obligations under leases which shall have been or should be, in accordance with GAAP, recorded as capital leases in respect of which obligations such Person is liable, contingently or otherwise, as obligor, guarantor or otherwise, or in respect of which obligations such Person assures a creditor against loss.

"Issuing Agent" means U.S. Bank National Association, as successor Subordinated Bond Paying Agent and Subordinated Bond Registrar for the Commercial Paper Notes under the Subordinated Bond Resolution and the Issuing and Paying Agency Agreement, and its successors in such capacity.

"Issuing and Paying Agency Agreement" means the Amended and Restated Issuing and Paying Agency Agreement dated as of February 1, 1995, as amended by the First Amendment to Amended and Restated Issuing and Paying Agency Agreement dated as of January 1, 1999 each between the City and the Issuing Agent, as amended and supplemented from time to time in accordance with the terms thereof and hereof.

"Lending Office" means the office of the Bank to which notices of borrowings of Loans hereunder shall be given and to which payments of amounts due hereunder and under the Bank Bond shall be made, which office (and any changes thereto) shall be communicated promptly by the Bank to the City at its address specified in or pursuant to Section 9.01.

"Lien" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset. For the purposes of this Agreement, the City shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such asset.

"Loan" means either a Revolving Credit Loan or the Term Loan, as the case may be.

"Maturity Date" means the earlier of (i) the Quarterly Payment Date immediately preceding the date that is the fifth (5th) anniversary of the earlier of (a) the date of the funding of the Term Loan or (b) the Termination Date, or (ii) the date on which a Tender Event shall have occurred and the Bank Bond shall be immediately due and payable pursuant to Section 7.02 hereof.

"Moody's" means Moody's Investors Service and its successors and assigns, and if such corporation (i) shall be dissolved or liquidated or (ii) shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized statistical rating organization (other than S&P or Fitch) designated by the Bank and approved by the City if such an organization shall exist.

"No-Issuance Instructions" has the meaning set forth in Section 2.01(b).

"Notice of Revolving Credit Borrowing" has the meaning set forth in Section 3.02(a).

"Notice of Term Borrowing" has the meaning set forth in Section 3.02(b).

"Offering Memorandum" means the Offering Memorandum, dated November 20, 2015, relating to the Commercial Paper Notes.

"Participant" has the meaning set forth in Section 9.05(b).

"Patriot Act" shall mean the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Title III of Pub. L. 107-56 (signed into law October 26, 2001).

"Person" means an individual, a corporation, a partnership, an association, a trust, a Governmental Authority or any other entity or organization of whatever nature, including a government or political subdivision or an agency or instrumentality thereof.

"Potential Tender Event" means (i) any condition or event which constitutes a Tender Event or (ii) which with the giving of notice or lapse of time or both would, unless cured or waived, become a Tender Event.

"Prime Rate" means, for any day, the fluctuating interest rate per annum most recently announced by the Bank as its "prime rate", it being understood that such rate shall not necessarily be the best or lowest rate of interest available to the Bank's best or most preferred

large commercial customers. Each change in the Prime Rate shall take effect simultaneously with the corresponding change or changes in the Bank's prime rate.

"Prior Bank" means Bayerische Landesbank Girozentrale, acting through its New York Branch.

"Prior Bank Bonds" means Bank Bonds as defined in Credit Agreement dated March 1, 2000, between the City and the Prior Bank.

"Quarterly Payment Date" means the first Business Day of each January, April, July and October.

"Rating Agency" means Fitch, Moody's and S&P.

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Requirement of Law" means as to any Person, the certificate of incorporation and by-laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation, or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Resolutions" means the Bond Resolution, the Subordinated Bond Resolution and the Second Supplemental Subordinated Bond Resolution.

"Revolving Credit Loan" means a Loan made during the Revolving Credit Period for the purpose of paying maturing Commercial Paper Notes.

"Revolving Credit Period" means the period from and including the Effective Date to and including the earliest of (a) the Termination Date, (b) the date on which the Commitment and the Bank's obligation to make Loans hereunder shall be terminated pursuant to Section 7.01 hereof and (c) the date of the making of a Term Loan.

"S&P" means Standard & Poor's Ratings Services, a Standard and Poor's Financial Services LLC business, and its successors and assigns, and if such business (i) shall be dissolved or liquidated or (ii) shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized statistical rating organization (other than Moody's or Fitch) designated by the Bank and approved by the City if such an organization shall exist.

"Sanctions" means economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by the U.S. government, including those administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the U.S. Department of State.

"Second Supplemental Subordinated Bond Resolution" means the Second Supplemental Subordinated Utilities System Revenue Bond Resolution adopted by the City on October 5, 1992 authorizing the issuance of the Commercial Paper Notes and the Bank Bond, as

amended and supplemented from time to time in accordance with the terms thereof and hereof, supplementing the Subordinated Bond Resolution.

"Subordinated Bond Resolution" means the Amended and Restated Subordinated Utilities System Revenue Bond Resolution adopted by the City on December 8, 2003 authorizing the issuance of the City's Subordinated Utilities System Revenue Bonds, as amended and as it may be further supplemented and amended from time to time in accordance with the terms thereof and hereof.

"Subordinated Indebtedness" is defined in the Subordinated Bond Resolution.

"Subordinated Indebtedness Fund" means the fund by that name established pursuant to the Bond Resolution.

"Suspension Event" has the meaning set forth in Section 7.01.

"Tender Event" has the meaning set forth in Section 7.01.

"Term Loan" means a Loan made on or prior to the Termination Date for the purpose of refunding one or more Revolving Credit Loans.

"Termination Date" means the earlier of (i) November 30, 2018, or such later date to which the Revolving Credit Period shall have been extended pursuant to Section 3.01(c), or if any such date is not a Business Day, the next preceding Business Day, or (ii) the date on which all of the following shall have occurred: (A) a Tender Event shall have occurred and be continuing (and shall not have otherwise been waived by the Bank), (B) the Commitment of the Bank shall have terminated in accordance with Section 3.08(b), and (C) the Bank Bond shall be immediately due and payable pursuant to Section 7.02 hereof.

"Trustee" has the meaning ascribed thereto in the Bond Resolution.

**SECTION 1.02 Accounting Terms and Determinations.** Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with generally accepted accounting principles as in effect from time to time ("GAAP").

**SECTION 1.03 Interpretation.** All words used herein shall be construed to be of such gender or number as the circumstances require. Reference to any document means such document as amended or supplemented from time to time as permitted pursuant to its terms and (if applicable) the terms hereof. Reference herein to any Article or Section shall be deemed to be a reference to the corresponding Article or Section of this Agreement unless otherwise specified.

## ARTICLE II COMMERCIAL PAPER OPERATIONS

### SECTION 2.01    Issuance of Commercial Paper Notes.

(a)     The City has (i) pursuant to the Subordinated Bond Resolution and the Issuing and Paying Agency Agreement, authorized and directed the Issuing Agent to act as its agent in the issuance, authentication, delivery and payment of Commercial Paper Notes and in effecting Loans hereunder and (ii) pursuant to the Subordinated Bond Resolution, provided security for the payment of principal and interest of the Commercial Paper Notes and all payments, including principal of and interest on, the Bank Bond.

(b)     Subject to the provisions of this Section 2.01 and of Article IV, unless each of the City and the Issuing Agent are in receipt of instructions ("No-Issuance Instructions") then in effect from the Bank given in accordance with this Section not to issue, authenticate or deliver Commercial Paper Notes because (i) a Potential Tender Event has occurred and is continuing or (ii) a representation or warranty of the City contained in this Agreement and deemed by the Bank to be material is not true and correct on and as of the date of such No-Issuance Instructions (unless such representation was made of a particular date), the City shall have the right from time to time to issue and sell Commercial Paper Notes pursuant to the Subordinated Bond Resolution and the Issuing and Paying Agency Agreement up to the maximum amount permitted to be outstanding at any time by subsection (c) of this Section. Any No-Issuance Instructions given by the Bank to the City and to the Issuing Agent in accordance with this Section 2.01(b) shall be in the form attached hereto as Exhibit C and shall specify one or more of the events or conditions described in clauses (i) and (ii) above as being the reason or reasons to cease issuing, authenticating and delivering Commercial Paper Notes. If the Bank shall, as permitted by this Section and as contemplated by the Second Supplemental Subordinated Bond Resolution and the Issuing and Paying Agency Agreement, deliver No-Issuance Instructions to the City and the Issuing Agent, the City shall not, and shall cause the Issuing Agent not to, issue, authenticate or deliver any Commercial Paper Notes after the time such No-Issuance Instructions are first received by the Issuing Agent and the City until such time as all previously delivered No-Issuance Instructions have been revoked, except to the extent that such issuance, authentication and delivery is made pursuant to a written agreement among the City, the Issuing Agent and the Dealer to which the Bank has previously consented in writing with respect to agreements for the sale of Commercial Paper Notes concluded by the Dealer prior to the time the Dealer first received notice from the Bank, the Issuing Agent or the City of the giving by the Bank to the City and the Issuing Agent of No-Issuance Instructions pursuant to this subsection. For purposes of this subsection, an agreement for the sale of Commercial Paper Notes shall be deemed concluded when it has become a final agreement in accordance with the customary practice of commercial paper dealers or placement agents in New York City. The City shall not, under any circumstances, so long as any No-Issuance Instructions given hereunder remain in effect, request the Dealer to purchase or sell any Commercial Paper Notes. Concurrently with the giving of any No-Issuance Instructions to the City and the Issuing Agent, the Bank shall endeavor to give notice thereof to the Dealer and to Moody's and S&P (in each case to the extent such Rating Agency then provides an investment rating with respect to the Commercial Paper Notes), but the failure of the Bank to do so shall not impair the effectiveness of any such No-Issuance Instructions nor otherwise affect the rights or obligations of the Bank

hereunder. Any No-Issuance Instructions given pursuant to this subsection to the City and the Issuing Agent may be revoked by the Bank in writing at any time.

(c) The City agrees that each Commercial Paper Note shall (i) be substantially in the form set forth in Article VII of the Second Supplemental Subordinated Bond Resolution and completed in accordance with this Agreement, the Issuing and Paying Agency Agreement and the Subordinated Bond Resolution, (ii) be dated the date of issuance thereof, (iii) be made payable to the order of bearer, (iv) have a stated maturity date (which shall be a day that is scheduled to be a Business Day as of the date of issuance), which shall not be later than the earlier to occur of (A) the 270th day after the date of its issuance and (B) the second Business Day preceding the Termination Date, and (v) be in a principal amount of \$100,000 or any larger integral multiple of \$1,000, which principal amount, when added to the aggregate principal amount of all other Commercial Paper Notes outstanding (after taking into account any Commercial Paper Notes paid or to be paid on such date) or to be issued on such date, will not exceed the aggregate unused amount of the Commitment in effect on such date. Upon the request of the Issuing Agent, the Bank agrees promptly to confirm to the Issuing Agent the aggregate unused amount of the Commitment in effect on the date of such request (which amount shall be determined without regard to any payment of Loans expected to be made on such date with respect to which the Bank has received notice but not the proceeds of such payment). As contemplated by Section 3 of the Issuing and Paying Agency Agreement, all Commercial Paper Notes shall be issued, authenticated and delivered against payment therefor and otherwise in accordance with the terms of this Agreement, the Issuing and Paying Agency Agreement and the Subordinated Bond Resolution.

(d) In the event that the Commercial Paper Notes shall be issued in book-entry form as provided in paragraph 1 of Section 208 of the Second Supplemental Subordinated Bond Resolution, (i) any reference in this Agreement to a "Commercial Paper Note" or the "Commercial Paper Notes", as the case may be, shall be deemed to refer to any or all of the separate obligations of the City evidenced by a "Municipal Commercial Paper – TECP Master Note" referred to in said paragraph 1 of Section 208 of the Second Supplemental Subordinated Bond Resolution, or such other evidence of the City's obligations with respect to the Commercial Paper Notes as may be provided for in the Letter of Representations, as defined in the Second Supplemental Subordinated Bond Resolution (a "Master Note"), (ii) any reference in this Agreement to the issuance, authentication or delivery of a Commercial Paper Note shall be deemed to refer to the incurrence of an additional separate obligation of the City evidenced by a Master Note and (iii) any reference in this Agreement to the payment of a Commercial Paper Note shall be deemed to refer to the payment of a particular separate obligation of the City evidenced by a Master Note.

### **ARTICLE III THE CREDITS**

#### **SECTION 3.01 Commitment to Lend.**

(a) Revolving Credit Loans. During the Revolving Credit Period, the Bank agrees, on the terms and conditions set forth in this Agreement, to make Revolving Credit Loans to the City pursuant to this Section from time to time in amounts such that the aggregate principal amount of Loans by the Bank at any one time outstanding shall not exceed the amount



of the Commitment. Each Loan under this subsection (a) shall be in such aggregate principal amount as shall be needed to pay the principal amount of the Commercial Paper Notes maturing on the date of such Loan. The Bank shall fund each Loan solely with the funds of the Bank. Within the foregoing limits, the City may borrow under this subsection (a), repay or, to the extent permitted by Section 3.09, prepay Revolving Credit Loans and re-borrow at any time during the Revolving Credit Period under this subsection (a). The Bank also agrees to fund a Revolving Credit Loan on the date hereof for the principal amount outstanding under the Prior Bank Bonds upon notice given by the City to the Bank by 1:30 P.M. on the date hereof and which shall be funded by the Bank in accordance with directions furnished by the City to the Bank, by 3:00 P.M. on such date.

(b) Term Loan. If requested by the City on or prior to the Termination Date, the Bank agrees, on the terms and conditions set forth in this Agreement, to make a Term Loan to the City for the purpose of refunding all or a portion of the Bank's then outstanding Loans; *provided* that the principal amount of such Term Loan shall at no time exceed the Commitment. Notwithstanding anything to the contrary contained herein, the City shall be entitled to request a Term Loan only once during the term of this Agreement, and shall not request a Term Loan unless either (a) all outstanding Commercial Paper Notes shall be paid or deemed to have been paid within the meaning of Article VI of the Second Supplemental Subordinated Bond Resolution on the date of the making of the Term Loan or (b) a letter of credit, credit agreement or other instrument or agreement replacing this Agreement and the Commitment in its entirety has been entered into between or among the City and one or more financial institutions or other Persons. The Bank's obligations to make Term Loans are subject to the satisfaction of the conditions set forth in Section 4.03 herein.

(c) Extension of Revolving Credit Period. No later than 180 days prior to Termination Date, the City may, by notice in writing to the Bank, request that the Bank extend the then current Termination Date for a period of such length as the City shall determine, in its sole discretion. If the Bank, in its sole discretion, elects to extend the Termination Date then in effect, it shall deliver to the City, the Issuing Agent and the Dealer within sixty (60) days of receiving said request a written notice of extension (herein referred to as a "Notice of Extension") designating its acceptance of such date. Following the date of delivery of such Notice of Extension by the Bank and after compliance by the City with all terms and conditions thereof, all references in this Agreement to the Termination Date shall be deemed to be references to the date designated as such in the most recent Notice of Extension delivered to the City, the Issuing Agent and the Dealer. Any date to which the Termination Date has been extended in accordance with this Section 3.01(c) may be extended in like manner. Upon any extension of the Termination Date pursuant to this Agreement, the Bank and the City each reserves the right to renegotiate any provision hereof. If the Bank fails to provide the City, the Issuing Agent and the Dealer with a Notice of Extension as provided hereinabove, the Bank shall be deemed not to have consented to the City's request and the Bank shall have no liability with respect to such failure or lack of consent.

Notwithstanding the foregoing, it is understood and agreed that the foregoing provisions are intended for the convenience of the parties only and shall in no respect prohibit the parties from agreeing to extend the Revolving Credit Period pursuant to written agreement between the City and the Bank under other circumstances or at other times. In the event the

Revolving Credit Period is extended under any other circumstances, the City shall give prompt written notice thereof to the Issuing Agent and the Dealer.

### **SECTION 3.02    Method of Borrowing.**

(a)     In the case of any Revolving Credit Loan, the Issuing Agent, on behalf of the City, shall give the Bank irrevocable written notice in the form of Exhibit A hereto appropriately completed (a "Notice of Revolving Credit Borrowing"), in accordance with Section 9.01 herein, not later than 12:00 P.M. (New York City time) on the date of such Loan, specifying:

(i)     the date of such Revolving Credit Loan, which shall be the Business Day on which such Notice is given, and

(ii)    the aggregate amount of such Revolving Credit Loan, which (1) shall not be less than \$100,000, and (2) shall not exceed the aggregate principal amount of the Commercial Paper Notes maturing on the date of such Loan and which have not been and will not be paid from the proceeds of sale of other Commercial Paper Notes on such date or from other funds on deposit in the Series C CP Note Payment Account on such date.

The wire information included on Exhibit A hereto may be modified upon 3 Business Days advance written notice to the Bank as provided in Section 9.01 in the same manner as a notice of Revolving Credit Loans is to be given.

(b)     In the case of a Term Loan, the City shall give the Bank irrevocable written notice in the form of Exhibit B hereto appropriately completed (a "Notice of Term Borrowing"), in accordance with Section 9.01 herein, not later than 12:00 P.M. New York City time) on the second (2nd) Business Day before such Loan, specifying:

(i)     the date of the Term Loan, and

(ii)    the amount of the Term Loan (which shall not exceed the aggregate principal amount of the outstanding Revolving Credit Loans).

The wire information included on Exhibit A hereto may be modified upon 3 Business Days advance written notice to the Bank as provided in Section 9.01 in the same manner as a notice of a Term Loan is to be given.

(c)     Not later than 1:30 P.M. (New York City time) on the date of each Loan, the Bank shall (except as provided in subsection (d) of this Section) fund such Loan by wire transfer of immediately available funds in accordance with the instructions set forth in the Notice of Revolving Credit Borrowing or Notice of Term Borrowing, as applicable, unless the Bank determines that any applicable condition specified in Article IV has not been satisfied.

(d)     On or prior to the Termination Date, if the City shall request the making of a Term Loan, the principal amount of the Term Loan shall be equal to the aggregate of the principal amounts of all Revolving Credit Loans outstanding on the date of the making of the Term Loan, less any repayments thereof made or to be made by the City on the date of the

making of the Term Loan. On the date of the making of the Term Loan, the Bank need not advance any moneys with respect to such Loan, but the Revolving Credit Loans outstanding on such date shall be deemed to be repaid from the proceeds of the Term Loan.

### **SECTION 3.03    Bank Bond.**

(a)    The Loans shall be evidenced by a single Bank Bond payable to the order of the Bank. The Bank Bond shall have a stated maximum principal amount equal to the amount of the Commitment hereunder; *provided* that the principal amount outstanding with respect to the Bank Bond at any time shall equal the amount borrowed by the City hereunder, less any prior repayments of the principal thereof.

(b)    The Bank Bond shall be in substantially the form set forth in Article VIII of the Second Supplemental Subordinated Bond Resolution.

(c)    The Bank shall keep in accordance with its usual business practices, records of the date, amount, type and maturity of each Loan made by it and the date and amount of each payment of principal made by the City with respect thereto, which records, absent manifest error, shall be conclusive and binding upon the City. Prior to any transfer of the Bank Bond shall endorse on the schedule forming a part thereof appropriate notations to evidence the foregoing information with respect to each such Loan then outstanding (which notations shall, at the request of the City, be submitted by the Bank to the City for its review prior to any such transfer of the Bank Bond); *provided* that the failure of the Bank to make any such recordation or endorsement or to submit any such notations to the City shall not affect the obligations of the City hereunder or under the Bank Bond. The Bank is hereby irrevocably authorized by the City so to endorse the Bank Bond and to attach to and make a part of the Bank Bond a continuation of any such schedule as and when required.

**SECTION 3.04    Maturity of Loans.**    Each Revolving Credit Loan shall mature, and the principal amount thereof shall be due and payable, on the earlier of (a) the Termination Date, as the same may be extended from time to time in accordance with Section 3.01(c) hereof and (b) the date of the making of the Term Loan. The Term Loan shall be repaid in ten (10) equal semi-annual principal installments, commencing on the second Quarterly Payment Date following the date of the making of the Term Loan, but in all events, any amounts outstanding under the Term Loan shall be due and payable in full on the Maturity Date.

### **SECTION 3.05    Interest Rates.**

(a)    Interest on the outstanding principal amount of a Loan shall accrue (beginning on the date the Loan is made) at the Bank Rate in effect from time to time while such Loan is outstanding. The interest rate on any such Loan shall change each time the Bank Rate shall change. Interest on any such Loan shall be payable on the first Business Day of each calendar month, commencing on the first month immediately following the date the Loan is made, on the date of any principal payment with respect to such Loan and on the first to occur of the Termination Date and the Maturity Date.

(b)    The Bank shall determine each interest rate applicable to the Loans hereunder. On or before each date on which principal or interest is due on a Revolving Credit Loan or the Term Loan, the Bank shall give written notice to the City, in accordance with

Section 9.01 herein, of the amount due, and its determination thereof shall be conclusive in the absence of manifest error. Failure of the Bank to so notify the City shall not obviate the payment obligations of the City as provided above and in the Bank Bond.

(c) Except as otherwise provided in clauses (i) and (ii) below, no provision of this Agreement or the Bank Bond shall require the payment or permit the collection of interest in excess of the maximum rate permitted by applicable law.

(i) If the amount of interest payable on any interest payment date in respect of the preceding interest computation period (without giving effect to any maximum rate permitted by law) would exceed the amount of interest computed in respect of such period at the maximum rate of interest from time to time permitted (after taking into account all consideration which constitutes interest) by applicable law (such maximum rate being the "Maximum Permissible Rate"), the amount of interest payable to the Bank on such date in respect of such period shall be computed at the Maximum Permissible Rate.

(ii) If at any time and from time to time (A) the amount of interest payable to the Bank on any interest payment date shall be computed at the Maximum Permissible Rate pursuant to the preceding paragraph (i) and (B) in respect of any subsequent interest computation period the amount of interest otherwise payable to the Bank would be less than the amount of interest payable to the Bank computed at the Maximum Permissible Rate, then the amount of interest payable to the Bank in respect of such subsequent interest computation period shall continue to be computed at the Maximum Permissible Rate until the total amount of interest paid to the Bank shall equal the total amount of interest which would have been payable to the Bank if the total amount of interest had been computed without giving effect to the maximum rate permitted by law. If and to the extent permitted by applicable law, on the first to occur of the Termination Date and the Maturity Date, the City shall pay to the Bank a fee equal to the amount of accrued and unpaid interest as a result of the provisions of this Section 3.05(c).

**SECTION 3.06 Fees.** Reference is hereby made to that certain agreement dated November 30, 2015 (the "Fee Letter"), between the Bank and the City (as amended or supplemented from time to time) regarding the agreement as to certain fees payable by the City to the Bank (the "Fees"). Any reference in this Agreement or in any other document to fees and/or other amounts payable under this Agreement shall include without limitation all fees and other amounts payable pursuant to the aforementioned Fee Letter concerning Fees and any reference to this Agreement shall be deemed to include reference to said Fee Letter.

**SECTION 3.07 Optional Termination or Reduction of Commitment.** During the Revolving Credit Period, subject to terms of the Fee Letter, the City may, upon five (5) Business Days' prior written notice to the Bank signed by an Authorized Officer of the City, (i) terminate the Commitment and the Bank's obligation to make Loans hereunder at any time, or (ii) reduce from time to time by an amount of \$1,000,000 or any larger integral multiple thereof, the amount of the Commitment. For purposes of the preceding sentence, a Commercial Paper Note shall be deemed not to be outstanding if funds sufficient to pay the principal amount of such Commercial Paper Note at maturity have been deposited with the Issuing Agent pursuant to

the Second Supplemental Subordinated Bond Resolution. Promptly upon delivery of any such notice by the City, the City shall notify the Issuing Agent and the Dealer of the contents thereof. The City will not terminate the Commitment unless (A) no Loans or Commercial Paper Notes are outstanding at such time, or (B) a letter of credit, credit agreement or other instrument or agreement replacing this Agreement, the Bank Bond and the Commitment in its entirety has been entered into between or among the City and one or more financial institutions or other Persons and all amounts payable to the Bank hereunder and under the Bank Bond have been paid in full at such time. The City will not reduce the Commitment to an amount less than the excess of the sum of (A) the aggregate outstanding principal amount of the Loans and (B) the aggregate principal amount of all outstanding Commercial Paper Notes, provided, however, that the Bank has no responsibility for determining or insuring compliance by the City with this requirement.

### **SECTION 3.08 Mandatory Termination of Commitment.**

(a) The Commitment and the Bank's obligation to make Loans hereunder shall terminate at 5:00 p.m. New York City time on the Termination Date, and any Revolving Credit Loans then outstanding (together with accrued interest thereon) shall be due and payable on such date, subject to any right of the City to request a Term Loan on such date in accordance herewith.

(b) If at any time a Tender Event shall have occurred and be continuing, the Bank may deliver a notice to that effect to the City, the Issuing Agent and the Dealer, and the Commitment and the Bank's obligation to make Loans hereunder shall terminate effective at 5:00 p.m. Eastern Time on the latest maturity date of the Commercial Paper Notes then outstanding and not issued or delivered in violation of Section 2.01(b) or, if a letter of credit, credit agreement or other instrument or agreement replacing this Agreement and the Commitment in its entirety has been entered into between or among the City and one or more financial institutions or other Persons, on the effective date of such letter of credit, credit agreement or other instrument or agreement replacing this Agreement and the Commitment.

**SECTION 3.09 Optional Prepayments.** The City may, at any time and from time to time, by written notice to the Bank by 1:00 P.M. (New York City time) on any Business Day, prepay any Loan in whole or in part by paying the principal amount to be prepaid, together with accrued interest thereon, by 3:00 P.M. (New York City time) on such Business Day.

### **SECTION 3.10 General Provisions as to Payments.**

(a) The City shall make each payment of principal of, and interest on, the Loans and of fees hereunder not later than 3:00 P.M. (New York City time) on the date when due, in Federal or other immediately available funds, to the Bank at its address specified in or pursuant to Section 9.01; *provided* that payment of principal of, and interest on, the Loans shall also be payable from amounts on deposit in the Series C CP Note Payment Account as provided in Article IV of the Second Supplemental Subordinated Bond Resolution, and any such payments to be made from amounts on deposit in the Series C CP Note Payment Account shall be made by the Issuing Agent (on behalf of the City) not later than 3:00 P.M. (New York City time) on the date when due, in Federal or other immediately available funds, to the Bank at its address specified in or pursuant to Section 9.01. Whenever any payment of principal of, or interest on, the Loans or of fees shall be due on a day which is not a Business Day, the date for payment

thereof shall be extended to the next succeeding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time, and when the date for payment of interest is extended, the interest paid shall include the interest accrued to the actual date of payment.

(b) If and to the extent permitted by applicable law, any principal of or interest on the Loans, under this Agreement or in connection with the Bank Bond that is not paid when due shall bear interest until paid at the Default Rate.

**SECTION 3.11 Computation of Interest and Fees.** Interest hereunder shall be computed on the basis of a year of 365 or 366 days, as applicable, and paid for the actual number of days elapsed (including the first day but excluding the last day). Fees pursuant to Section 3.06 shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

#### **ARTICLE IV CONDITIONS**

**SECTION 4.01 Effectiveness.** This Agreement shall become effective on the date on which each of the following conditions shall have been satisfied (or waived in accordance with Section 9.04), or such later date as shall have been agreed upon in writing by the City and the Bank:

(a) receipt by the City and the Bank of counterparts hereof and of the Fee Letter signed by each of the parties hereto;

(b) receipt by the Bank and its counsel of any amounts then due pursuant to the Fee Letter;

(c) receipt by the Bank of the duly executed Bank Bond dated on or before the Effective Date complying with the provisions of Section 3.03;

(d) receipt by the Bank of (i) an opinion of the Office of the City Attorney of the City, substantially in the form of Exhibit D-1 hereto and covering such additional matters relating to the transactions contemplated hereby or by the Financing Documents as the Bank may reasonably request, (ii) an opinion of Holland & Knight LLP, Bond Counsel for the City, substantially in the form of Exhibit D-2 hereto;

(e) receipt by the City of an opinion of counsel for the Bank, substantially in the form of Exhibit E hereto and covering such additional matters relating to the transactions contemplated hereby or by the Financing Documents as the City may reasonably request;

(f) a copy of the opinion of Orrick, Herrington & Sutcliffe LLP delivered on April 25, 2008 as to, among other things, the tax exempt status of interest on the Commercial Paper Notes;

(g) receipt by the Bank of copies of the Issuing and Paying Agency Agreement and the Dealer Agreement, as executed by the parties thereto;

(h) receipt by the Bank of a certified copy of each Resolution, including all supplements thereto making any amendment thereof (each as in effect on the Effective Date), and a certificate of the Clerk of the Commission of the City certifying that each Resolution is in full force and effect and that there has been no other amendment or modification to any provision of any such Resolution;

(i) receipt by the Bank of a certificate of an Authorized Officer of the City certifying that (i) each of the City's representations and warranties contained (or incorporated by reference) herein is true and correct on and as of the Effective Date, (ii) no Potential Tender Event is occurring on the date of such certificate, and (iii) except as disclosed in writing to the Bank, subsequent to the date of the City's audited financial statements relating to the System for the fiscal year ended September 30, 2014, there has not been any material adverse change in the business, assets, financial position or results of operations of the City that are payable from the Trust Estate;

(j) receipt by the Bank of a certificate of the Clerk of the Commission of the City certifying as to the authorization and signatures of the officers of the City who are authorized to execute and deliver this Agreement, the Fee Letter and the Bank Bond;

(k) receipt by the Bank of a copy of the Offering Memorandum;

(l) receipt by the Bank of written confirmation that the Commercial Paper Notes have been rated "P-1" by Moody's and "A-1" by S&P;

(m) receipt by the Bank of written evidence that the Bank Bond CUSIP number has been obtained and received from Standard & Poor's CUSIP Service Bureau;

(n) receipt by the Bank of written confirmation that the Bank Bond shall have received at least one unenhanced long-term credit rating from any of the Rating Agencies;

(o) the Bank shall have determined, in its sole discretion, that the City meets the Bank's credit requirements and that no legal change has occurred which would prevent the City from fulfilling its obligations under this Agreement, the Fee Letter, the Commercial Paper Note or any other Financing Document; and

(p) receipt by the Bank of all opinions, certificates and other documents it may reasonably request relating to the existence of the City, the authority for and the validity of this Agreement, the Bank Bond and each other

Financing Document, and any other matters relevant hereto or thereto, all in form and substance satisfactory to the Bank;

The Bank shall promptly notify the City, the Issuing Agent and the Dealer of the Effective Date, and such notice shall be conclusive and binding on both parties hereto.

**SECTION 4.02 Revolving Credit Borrowings.** The obligation of the Bank to make a Revolving Credit Loan is subject to the satisfaction of the following conditions:

(a) receipt by the Bank of a Notice of Revolving Credit Borrowing as required by Section 3.02;

(b) the fact that, immediately after such Loan, the aggregate outstanding principal amount of the Loans will not exceed the amount of the Commitment and that none of the proceeds of such Loan shall be used to pay any Commercial Paper Notes issued or delivered in violation of Section 2.01(b); and

(c) no Immediate Tender Event or Suspension Event shall have occurred and be continuing.

Each Loan hereunder shall be deemed to be a representation and warranty by the City on the date of such Loan as to the facts specified in clauses (b) and (c) of this Section.

**SECTION 4.03 Term Borrowing.** The obligation of the Bank to make a Term Loan is subject to the satisfaction of the following conditions:

(a) receipt by the Bank of a Notice of Term Borrowing as required by Section 3.02;

(b) the fact that, immediately after such Loan, the aggregate outstanding principal amount of the Loans will not exceed the amount of the Commitment;

(c) no Potential Tender Event shall have occurred and be continuing; and

(d) each of the City's representations and warranties contained in Article V shall be true and correct on and as of the date of such Term Loan (except with respect to the representations and warranties contained in Section 5.01 and 5.02 hereof).

Such Term Loan shall be deemed to be a representation and warranty by the City on the date of such Loan as to the facts specified in clauses (b), (c) and (d) of this Section.

## **ARTICLE V REPRESENTATIONS AND WARRANTIES**

The City represents and warrants that as of the date hereof:



**SECTION 5.01 Financial Condition.** The balance sheet of Gainesville Regional Utilities at September 30, 2014, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended, reported on by Ernst & Young LLP, heretofore delivered to the Bank, are complete and correct and present fairly the financial condition of Gainesville Regional Utilities as of such date, and the results of its operations and changes in financial position for the year then ended. All such financial statements, including the related schedules and notes thereto, have been prepared in accordance with GAAP applied consistently throughout the periods involved (except as approved by such accountants and as disclosed therein).

**SECTION 5.02 No Change.** Except as disclosed in writing to the Bank, since September 30, 2014, there has been no material change in the business, operations, assets or financial or other condition of the System which would adversely affect the ability of the City to perform its obligations under this Agreement or the Financing Documents.

**SECTION 5.03 Organization; Compliance with Law.** The City (a) is a municipal corporation duly organized and validly existing under the laws of the State of Florida, (b) has all requisite power and authority and the legal right to own and operate its property and to conduct its business, including without limitation, the System, and (c) is in compliance with all Requirements of Law except to the extent that the failure to comply therewith would not, in the aggregate, have a material adverse effect on the business, operations, properties or financial or other condition of the System, and would not materially adversely affect the ability of the City to perform its obligations under this Agreement or the Financing Documents.

**SECTION 5.04 Power; Authorization; Enforceable Obligations.** The City has all requisite power and authority and the legal right to adopt the Resolutions, to make, deliver and perform this Agreement, the Bank Bond and the other Financing Documents and to borrow hereunder and to secure the payment of its obligations in respect of such borrowings by the pledge of the Subordinated Indebtedness Fund made in the Subordinated Bond Resolution, and has taken all necessary action to authorize the borrowings and such pledge on the terms and conditions of this Agreement, the Bank Bond and the Resolutions, and to authorize the execution, delivery and performance of this Agreement, the Commercial Paper Notes and the other Financing Documents. No consent or authorization of, filing with, or other act by or in respect of any Governmental Authority, is required in connection with the execution, delivery, performance, validity or enforceability of this Agreement, the Bank Bond or the other Financing Documents, except such consents, authorizations, filings or other acts as have been obtained, made or given. This Agreement, the Bank Bond and the other Financing Documents (except the Resolutions) have been duly executed and delivered on behalf of the City, and each of this Agreement and the other Financing Documents constitute a legal, valid and binding obligation of the City enforceable against the City in accordance with its terms, subject to the effect of, and restrictions and limitations imposed by or resulting from, bankruptcy, insolvency, debt adjustment, moratorium, reorganization or other similar laws affecting creditors' rights and judicial discretion and the valid exercise of the sovereign police powers of the State of Florida and the constitutional power of the United States of America. The Resolutions have been duly adopted and are in full force and effect.

**SECTION 5.05 No Legal Bar.** The execution, delivery and performance of this Agreement, the Bank Bonds and the other Financing Documents will not violate any Requirements of Law or any Contractual Obligation of the City.

**SECTION 5.06 No Material Litigation.** Except as disclosed in writing to the Bank, no litigation or proceeding or, to the knowledge of the City investigation of or before any arbitrator or Governmental Authority is pending (a) with respect to this Agreement, the Bank Bonds or any other Financing Document or any of the transactions contemplated thereby or hereby, or (b) which would have a material adverse effect on the business, operations, properties or financial or other condition of the System or the ability of the City to perform its obligations under this Agreement, the Bank Bonds or any other Financing Document or in respect of any other Indebtedness incurred to finance or otherwise in respect of the System or secured by Revenues or other assets of the System.

**SECTION 5.07 No Default.** The City is not in default under or with respect to this Agreement, the Bank Bonds or the other Financing Documents, or with respect to any Contractual Obligation in any respect which would be materially adverse to the business, operations, properties or financial or other condition of the System or which would materially and adversely affect the ability of the City to perform its obligations under this Agreement, the Bank Bonds or the other Financing Documents or in respect of any other Indebtedness incurred to finance or otherwise in respect of the System or secured by any Revenues or other assets of the System. No Potential Tender Event has occurred and is continuing.

**SECTION 5.08 Security, Etc.** The obligations of the City in respect of the Bank Bond will be secured ratably with the Commercial Paper Notes and with other Subordinated Bonds or Parity Subordinated Indebtedness heretofore and hereafter issued by a lien on and pledge of the Subordinated Indebtedness Fund, which lien and pledge is junior and subordinate in respect of any part thereof which is included in the Trust Estate, as such term is defined in the Bond Resolution, to the lien on and pledge of such Trust Estate created by the Bond Resolution in favor of the holders of the Bonds, but is superior to all other liens, pledges, charges, security interests and other encumbrances of whatever nature on the Subordinated Indebtedness Fund. The obligations of the City in respect of the Bank Bond will be "Subordinated Indebtedness" within the meaning of the Bond Resolution.

**SECTION 5.09 Federal Reserve Regulations.** No part of the proceeds of any Loan will be used for the purpose, whether immediate, incidental or ultimate, to purchase or carry any margin stock (within the meaning of Regulation U) or for any other purpose which would violate any of the regulations of the Board of Governors of the Federal Reserve System.

**SECTION 5.10 ERISA Matters.** The City does not maintain any employee benefit plan that is subject to Title I or Title IV of ERISA.

**SECTION 5.11 Sovereign Immunity.** The defense of sovereign immunity is not available to the City in any proceedings by the Bank to enforce any of the provisions of this Agreement or the Financing Documents, except to the extent that any such proceeding seeks enforcement based on tort or similar claim and in such case such defense is available only to the extent set forth under Florida Statutes Section 768.28 or other similarly applicable provision of law.

**SECTION 5.12 Full Disclosure.** To the best of the City's knowledge, all information heretofore furnished (including pursuant to any representation or warranty) by the City to the Bank for purposes of or in connection with this Agreement is, and all such information hereafter furnished by the City to the Bank will be, true and accurate in all material respects on the date as of which such information is stated or certified.

**SECTION 5.13 Incorporation by Reference.** The City is in compliance with all representations and warranties set forth herein and in the Financing Documents to which it is a party (unless made as of a previous date), which are hereby made to, and for the benefit of, the Bank and incorporated herein by this reference, as if set forth herein in full (together with the related definitions).

**SECTION 5.14 No Proposed Legal Changes.** Except as disclosed in writing to the Bank or as otherwise permitted by the Subordinated Bond Resolution or the Bond Resolution, there is no amendment or proposed amendment certified for placement on a ballot or referendum or, to the knowledge of the City, to the Constitution of the State of Florida or to any law, ordinance, or regulation of the State of Florida applicable to the System, or any legislation that has passed either house of the legislature of the State of Florida, or any published judicial decision interpreting any of the foregoing, the effect of which could reasonably be expected to have a material adverse effect upon (a) the ability of the City to perform its obligations under this Agreement, the Fee Letter the or any Financing Document in any material respect or any other material contract related to the System to which any one or more of them is a party; (b) the legality, validity or enforceability of this Agreement, the Fee Letter or any Financing Document; or (c) the priority of the Liens granted under the Resolutions or the rights and remedies of the Bank under this Agreement, the Fee Letter or any other Financing Document.

**SECTION 5.15 Environmental Laws.** The System and any of the property of the City that constitutes a part of the System is in material compliance with all applicable Environmental Laws and has not become subject to any Environmental Liability, nor does the City know of any basis for such Environmental Liability.

**SECTION 5.16 Rate Increases.** An increase by the City of rates, fees, rentals or other charges for use of the product, services and facilities of the System requires no action or approval by or in respect of any Governmental Authority other than the City Commission of the City and the Florida Public Commission.

## **ARTICLE VI COVENANTS**

The City agrees that, so long as the Bank has any Commitment hereunder or any amount payable hereunder or under the Bank Bond remains unpaid, the City:

**SECTION 6.01 Resolutions.** Shall perform each of its covenants set forth in the Subordinated Bond Resolution and the Bond Resolution (as the same may be amended from time to time after the date of this Agreement) at the time such performance is required thereby (and giving effect to any applicable grace periods set forth therein). For the purposes of this Agreement, each reference to the Trustee in the Bond Resolution shall be deemed to be a

reference to the Bank and each reference therein to the Bonds shall be deemed to be a reference to the Bank Bond.

**SECTION 6.02 Financial and Other Information.** Shall furnish to the Bank (a) within 270 days after the close of each Fiscal Year of the City, a balance sheet of Gainesville Regional Utilities as at the end of such year, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended, accompanied by an unqualified audit report of an independent certified public accounting firm of recognized standing stating that they have been prepared in accordance with GAAP consistently applied; and (b) promptly upon request, such financial and other information as the Bank may from time to time reasonably request.

As and to the extent the information required by this Section 6.02 has been properly and timely (that is, on or before the date specified above) filed with the Municipal Securities Rulemaking Board (or any successor agency) through EMMA, the City will be deemed to have complied with the provisions of this Section.

**SECTION 6.03 Inspection of Property; Discussions.** Shall permit representatives of the Bank to visit and inspect any of the properties of the System and examine and make abstracts from any of its books and records (except to the extent such books and records are subject to legal privilege) at any reasonable time and as often as may reasonably be desired, and to discuss the business, operations, properties and financial and other condition of the System with officers and employees of the System and with its independent certified public accountants.

**SECTION 6.04 Notices.** Shall promptly give notice to the Bank upon knowledge of an officer of the City:

(a) of the occurrence of any (i) Tender Event and (ii) any Potential Tender Event;

(b) of any (i) default or event of default under any Contractual Obligation of or relating to the System or (ii) litigation, investigation or proceeding which may exist at any time between the City and any other Person, which in either case would have a material adverse effect on the business, operations, property or financial or other condition of the System or on the ability of the City to perform its obligations under this Agreement, the Fee Letter or any other Financing Document;

(c) of any litigation or proceeding affecting the System in which the amount involved is \$20,000,000 or more and not covered by insurance or in which injunctive or similar relief is sought (for purposes of this clause (c), an obligation shall be considered "covered by insurance" to the extent the City has self-insured against such obligation or risk and has maintained adequate reserves therefor under appropriate insurance industry standards);

(d) of any change in the ratings on the Bonds or any Subordinated Indebtedness assigned by Moody's or S&P;

(e) of any formal inquiry or investigation brought by the United States Securities and Exchange Commission or Internal Revenue Service that relates to any Bonds or Subordinated Indebtedness; and

(f) of the execution and delivery or adoption, as applicable, thereof, of any amendments to any of this Agreement, the Financing Documents (other than the Resolutions) or the Offering Memorandum, together with copies thereof (but exclusive of those amendments or supplements for which the Bank's consent is otherwise required pursuant to the terms of this Agreement).

Each notice pursuant to paragraphs (a), (b), (c) or (e) of this subsection shall be accompanied by a statement of an Authorized Officer of the City setting forth details of the occurrence referred to therein and stating what, if any, action the City proposes to take with respect thereto.

**SECTION 6.05 Resolutions, Etc.** Shall not amend the Subordinated Bond Resolution without the prior written consent of the Bank or modify, amend or supplement or agree to modify, amend or supplement, any other Financing Document in any respect which is adverse to the interests of the Bank or would impair the City's ability to perform under this Agreement or is inconsistent with this Agreement, without the prior written consent of the Bank; *provided, however*, that except as hereinafter provided, (a) in the case of the Subordinated Bond Resolution, no such consent shall be required in connection with any amendment thereto permitted under the provisions of Section 10.01 or 10.02 thereof and (b) in the case of the Bond Resolution, no such consent shall be required in connection with any amendment thereto permitted under the provisions of Section 1001 or 1002 thereof. The City shall promptly (and in any event within thirty(30) days) furnish to the Bank copies, certified by the Clerk of the Commission of the City as being in full force and effect, of any modification of, amendment of or supplement to any of the Resolutions as in effect on the date of the delivery of the certified Resolutions referred to in subsection 4.01(g); *provided, however*, that (a) in the case of the Subordinated Bond Resolution, the City shall not be required to furnish any such modification, amendment or supplement permitted under the provisions of Section 10.01 or 10.02 thereof, other than such a modification, amendment or supplement that amends or modifies the provisions of the Second Supplemental Subordinated Bond Resolution and (b) in the case of the Bond Resolution, the City shall not be required to furnish any such modification, amendment or supplement permitted under the provisions of Section 1001 or 1002 thereof. No such amendments permitted hereunder shall impair the rights of the Bank under the Subordinated Bond Resolution or the Bond Resolution or the ability of the City to perform its obligations hereunder or under the Bank Bond; provided, however, that the foregoing shall not impair the rights of the City to issue additional indebtedness and obligations in accordance with the terms of the Subordinated Bond Resolution or the Bond Resolution.

No amendment to the sections of the Bond Resolution incorporated by reference into the Subordinated Bond Resolution by virtue of Section 7.07 of the Subordinated Bond Resolution shall be effective for purposes of the Subordinated Bond Resolution unless approved in the same manner as required for an amendment to the Subordinated Bond Resolution (as if such incorporated provisions were set out in full in the Subordinated Bond Resolution).

**SECTION 6.06 Payment of Bank Bond.** Shall pay or cause to be paid to the Trustee for deposit in the Subordinated Indebtedness Fund an amount which, together with other amounts then on deposit in such Subordinated Indebtedness Fund and the Series C CP Note Payment Account, will be sufficient and available to make payment of the principal and interest on Bank Bond on the dates the same shall become due and payable.

**SECTION 6.07 Further Assurance.** Shall, at any and at all times, as far as it may be authorized by law, comply with any reasonable request of the Bank 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, moneys, securities and funds pledged or assigned in the Subordinated Bond Resolution or intended so to be, or which the City may become bound to pledge or assign.

**SECTION 6.08 Power to Fix and Collect Rates, Fees and Charges.** The City has, and except due to a change in law, will have as long as any Bank Bonds are outstanding or other amounts are owing to the Bank hereunder, 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 6.09 Replacement of this Agreement.** In the event that either (a) the Bank shall determine (or be deemed to have determined) not to extend the Revolving Credit Period upon request of the City, (b) the City shall have failed to timely request that the Bank extend the Revolving Credit Period or (c) the Commitment and the Bank's obligation to make Loans hereunder shall have been terminated by the City prior to the Termination Date or shall have terminated as provided in Section 7.01, shall either (i) obtain a letter of credit, credit agreement or other instrument or agreement replacing this Agreement and the Commitment in its entirety, or (ii) refinance in full or otherwise defease in full the Commercial Paper Notes, in either case, as soon as practicable following the occurrence of either such event. The City agrees that any replacement letter of credit, credit agreement or other instrument or agreement will require, as a condition to its effectiveness, that the issuer or provider thereof, as the case may be, will provide funds, on the date such letter of credit, credit agreement or other instrument or agreement becomes effective, which, together with any available funds of the City, shall be sufficient to pay in full all Loans outstanding on such date, plus accrued interest thereon, together with all other amounts due and payable hereunder.

**SECTION 6.10 Sovereign Immunity.** To the extent authorized by applicable law, the City agrees to waive sovereign immunity from suit and liability for the purposes of adjudicating a claim to enforce its duties and obligations under this Agreement, the Fee Letter and any Bank Bonds or for damages for a breach of any of the foregoing, except to the extent that any such proceeding seeks enforcement based on tort or similar claim and in such case such defense is available only to the extent set forth under Florida Statutes, Section 768.28 or other similarly applicable provision of law.

**SECTION 6.11 Incorporation by Reference.** (a) Shall comply with all its covenants and agreements set forth in the other Financing Documents, which covenants and agreements are hereby incorporated herein by reference and, notwithstanding anything to the

contrary set forth herein or in such other Financing Documents, shall be for the benefit of, and run directly to, the Bank, and the Bank shall be entitled to rely upon all such covenants and agreements as though all such covenants and agreements were set forth herein in full or otherwise addressed directly to the Bank. All such covenants and agreements shall be unaffected by any amendment, modification or waiver after the date hereof of any such other Financing Document, unless amended, modified or waived in accordance with Section 6.05 hereof.

(b) (i) In the event that the City shall after the date hereof, directly or indirectly, enter into, or otherwise consent to any amendment, supplement or other modification of, any credit agreement, note purchase agreement, reimbursement agreement or other agreement or instrument under which, directly or indirectly, any Person or Persons undertake to make or provide funds to make payment of, or to purchase or provide credit enhancement for, any Indebtedness which is secured on a parity with, the Commercial Paper Notes (each, an "Other Debt Document"), and which includes financial covenants or other more favorable remedies, including without limitation, a more favorable bank bond amortization period or more accelerated schedule of bank bond amortization payments or any other rights to otherwise accelerate (but expressly excluding, for purposes of clarification with respect to this Section, any commitment fee or termination fee provisions agreed to by the City with any other Person), which are more favorable than the provisions contained in this Agreement (all of the foregoing provisions are collectively referred to herein as the "Incorporated Provisions"), this Agreement shall be deemed to be amended to include such Incorporated Provisions, together with related defined terms contained in such sources, for the benefit of the Bank. The City will perform and comply with the Incorporated Provisions incorporated herein. The City further covenants to promptly execute and deliver at its expense an amendment to this Agreement in form and substance satisfactory to the Bank evidencing the amendment of this Agreement to include such Incorporated Provisions, provided that the execution and delivery of such amendment shall not be a precondition to the effectiveness of this Agreement being deemed to be amended as provided for in this Section, but shall merely be for the convenience of the parties hereto. Said Incorporated Provisions, so long as the Other Debt Document or Documents from which it or they are derived has not been terminated, or has not expired, will remain in full force and effect for all purposes of this Agreement; *provided*, that (i) any amendment, waiver or other modification of an Incorporated Provision, if effected in accordance with the Other Debt Document from which it is derived (excluding any amendment, waiver or other modification effected subsequent to the occurrence of a "default" or "event of default" under said Other Debt Document or hereunder), will be effective to amend, waive or modify such Incorporated Provision as set forth in this Agreement only after the City provides written notice to the Bank of such amendment, waiver or modification, in which case, the City shall promptly execute and deliver at its expense an amendment to this Agreement in form and substance satisfactory to the Bank evidencing the amendment, waiver or modification of this Agreement to amend, waive or modify such Incorporated Provisions; and (ii) in no event will any such amendment, waiver or modification of an Incorporated Provision, if effected in accordance with the Other Debt Document from which it is derived (excluding any amendment, waiver or other modification effected subsequent to the occurrence of a "default" or "event of default" under said Other Debt Document or hereunder) result in an amortization period and/or related schedule of amortization payments with respect to Bank Bonds that is less favorable to the Bank than the provisions originally set forth in this Agreement. Notwithstanding any other provision of this Section 6.11, however, in the event that the Bank Bond held by the Bank actually is amortizing pursuant to a more favorable schedule of amortization payments set forth in such Other Debt Document or



Documents, then regardless of the effective status of such Other Debt Document or Documents or any amendment, waiver or modification thereof by any other Person, the Bank Bond held by the Bank shall remain subject to such more favorable schedule of amortization payments, and such more favorable Incorporated Provisions shall remain in effect hereunder, unless the Bank otherwise consents in writing, unless any such amendment or modification is more favorable to the Bank and, in such case, the more favorable terms shall be subject to incorporation by reference as otherwise described in this Section.

(ii) Notwithstanding the foregoing, no (A) additional or more restrictive events of default under an Other Debt Document, the remedy for which is an immediate termination or suspension of the obligations of the related lender thereunder or (B) additional conditions precedent to purchase or funding under an Other Debt Document shall be incorporated into this Agreement pursuant to the terms of Section 6.11(b)(i) without written confirmation from each of the Rating Agencies then rating the Commercial Paper Notes that such incorporation will not result in a suspension, lowering or withdrawal of the then current short-term credit ratings on the Commercial Paper Notes.

**SECTION 6.12 Rating of Bank Bond.** While any Loan is outstanding, upon the request of the Bank the City will, at its expense, endeavor to obtain and maintain a credit rating assigned to the Bank Bond by at least one Rating Agency.

**SECTION 6.13 Compliance with Laws.** Shall comply in all material respects, within the time period, if any, given for such compliance by the relevant Governmental Authority, with all applicable laws, rules, regulations and requirements of Governmental Authorities (including, without limitation, Environmental Laws), except where the necessity of compliance therewith is contested in good faith by appropriate proceedings.

**SECTION 6.14 Dealer and Issuing Agent.** So long as this Agreement is in effect, the City will not permit the appointment of a successor Issuing Agent or Dealer unless the City has obtained the prior written consent of the Bank thereto, which consent shall not be unreasonably withheld or delayed. The City will cause an Issuing Agent and a Dealer acceptable to the Bank to be in place at all times while this Agreement is in effect or any Commercial Paper Notes are outstanding.

**SECTION 6.15 Disclosure of Bank.** The City agrees that it will not, without the prior approval of the Bank (which approval shall not be unreasonably withheld), include in any official statement, reoffering memorandum or similar disclosure document relating to the Commercial Paper Notes, Bonds or Subordinated Bonds or other indebtedness offered by the City on a public or private basis any information describing the Bank; *provided, however*, that the City may include references to the existence of this Agreement, the Bank and its role with respect to the Commercial Paper, without the Bank's consent thereto, in connection with (i) the preparation of an offering document for such indebtedness, (ii) the City's satisfaction of its continuing disclosure requirements, (iii) the preparation of its annual financial statements, and (iv) compliance with any other legal or regulatory requirement applicable to the City.

**SECTION 6.16 Maintenance of Ratings.** Shall at all times maintain long-term credit ratings assigned to the Bonds at no less than "A3" or "A-," as applicable, without regard to credit or liquidity enhancements, from not less than two Rating Agencies.



**SECTION 6.17 Repudiation.** The City shall not by official action of the City Commission assert in writing that any material provision of this Agreement or any Financing Document (including without limiting the generality of the foregoing, Section 5.01(1) of the Subordinated Bond Resolution) related to the payment of principal or interest on the Commercial Paper Notes or the security for the Commercial Paper Notes is not valid and binding on the City.

## **ARTICLE VII TENDER EVENTS**

**SECTION 7.01 Tender Events.** If one or more of the following events ("Tender Events") shall have occurred and be continuing:

(a) the City shall fail to pay when due (i) any principal of, or interest on, any Loan (but excluding, for purposes of this subsection (a)(i), accelerated payments on the Bank Bond, which acceleration results solely from either (1) a Potential Tender Event under clause (ii) of the definition thereof occurring and continuing, or (2) any representation or warranty of the City contained in (or incorporated by reference in) this Agreement not being true and correct), or (ii) any fees or any other amount payable hereunder or under the Fee Letter;

(b) the City shall fail to observe or perform any covenant or agreement contained in this Agreement (other than as described in another clause of this Section 7.01) or in any Financing Document for 60 days after written notice thereof has been given to the City by the Bank; *provided, however*, that there shall be no 60-day cure period for a failure to observe or perform any covenant or agreement set forth in or contemplated by Section 6.01, 6.04(a), 6.04(b), 6.04(c), 6.05, 6.06, 6.08, 6.09, 6.10, 6.11, 6.14 or 6.15;

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

(d) the City shall fail to pay any principal of, or interest on, any of the Bonds, the Commercial Paper Notes or any of the City's Subordinated Indebtedness (including bank-held bonds, but excluding, for purposes of this subsection (d), accelerated payments on bank-held bonds, notes or other Subordinated Indebtedness arising from unreimbursed draws on letters of credit, standby bond purchase agreements and other similar instruments, which acceleration results solely from either (i) an event of default or tender event occurring and continuing with respect thereto, or (ii) any representation or warranty of the City contained in (or incorporated by reference in) the documents relating to such bank-held bonds, notes or other Subordinated Indebtedness not being true and correct) when due or within any applicable grace period; provided that for purposes of this subsection (d), the foregoing shall exclude (A) the failure by the City to pay any termination payments owed to a counterparty to a Qualified Hedging Contract, (B) the failure by the City to pay any net payment on any

Qualified Hedging Contract that is not related to limiting or managing exposure to fluctuations in interest rates, or to obtain a marginally lower interest rate, in either case, pertaining to the Bonds or the Commercial Paper Notes, and/or (C) the failure by the City to pay any principal of, or interest on, Subordinated Indebtedness issued in the form of commercial paper notes, but only to the extent that (I) the payment of such amounts is supported in whole by a third-party liquidity provider pursuant to a liquidity agreement and (II) with respect to such commercial paper notes, no underlying, unenhanced short-term credit rating has been issued by the Rating Agencies;

(e) any event or condition shall occur which (i) results in the acceleration of the maturity of any Commercial Paper Notes or other Subordinated Indebtedness or (ii) enables (or, with the giving of notice or lapse of time or both, would enable) the holder of such Commercial Paper Notes or other Subordinated Indebtedness or any Person acting on such holder's behalf to accelerate the maturity thereof;

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

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

(h) a moratorium shall have been declared or announced (whether or not in writing) by the State of Florida, the Federal Government or any other Governmental Authority with jurisdiction with respect to all of the Bonds or all of the Subordinated Indebtedness, or a moratorium shall have been declared or announced (whether or not in writing) by the City with respect to any of the Bonds or any of the Subordinated Indebtedness;

(i) A final, unappealable judgment or judgments against the City for the payment of money in excess of \$20,000,000 in the aggregate shall be payable from the funds and other property comprising the Trust Estate and not be covered

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

(j) any material provision of this Agreement or any Financing Document (including without limiting the generality of the foregoing, Section 5.01(1) of the Subordinated Bond Resolution) related to the payment of principal or interest on the Commercial Paper Notes or the security for the Commercial Paper Notes shall at any time cease to be valid and binding on the City as a result of a final, non-appealable judgment of a court of competent jurisdiction or by any Governmental Authority having jurisdiction;

(k) each of the Rating Agencies then rating any Bonds shall have downgraded the long-term unenhanced credit ratings on such Bonds to below "Baa3" or "BBB-", as the case may be, or shall have suspended or withdrawn the long-term unenhanced credit ratings on such Bonds for credit-related reasons; or

(l) the City shall fail to pay when due (i) any accelerated payments on the Bank Bond, (ii) any accelerated payments on bank-held bonds, notes or other Subordinated Indebtedness arising from unreimbursed draws on letters of credit, standby bond purchase agreements and other similar instruments within any applicable grace period; (iii) any termination payments owed to a counterparty to a Qualified Hedging Contract; or (iv) any net payment on any Qualified Hedging Contract that is not related to limiting or managing exposure to fluctuations in interest rates, or to obtain a marginally lower interest rate, in either case, pertaining to the Bonds or the Commercial Paper Notes;

then, and in every such event, the Bank (i) may issue to the City and the Issuing Agent pursuant to Section 2.01(b) No-Issuance Instructions, if No-Issuance Instructions have not theretofore been issued or are not then in effect, (ii) may, by notice to the City, terminate the Commitment and the Bank's obligation to make Loans hereunder and they shall thereupon terminate in accordance with Section 3.08(b), and (iii) may, by notice to the City, tender the Bank Bond to the City for payment and the City shall thereupon be obligated to pay immediately the outstanding principal amount of the Bank Bond (together with accrued interest thereon) and all other amounts owed by the City hereunder, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the City; *provided, however*, with respect to clause (iii) if on such date any Commercial Paper Notes remain outstanding, the Bank shall not be required to tender such Bank Bond to the City for payment and such Bank Bond shall instead be deemed to be partially tendered for payment to the City and the City shall be obligated to pay immediately the outstanding principal amount of the Bank Bond, together with accrued interest thereon, as of the date of the tender, and if the Bank funds any Loan subsequent to such "deemed tendered" date the Bank shall have again be deemed to have partially tendered the Bank Bond for payment on such date and the City shall also be obligated to immediately pay the Bank the amount of such Loan on the date thereof, together with all interest as may accrue thereon. Notwithstanding the foregoing, in the case of any of the Tender Events described in clause (a)(i), clause (d), clause (f), clause (g), clause (h), clause (i), clause (j) or clause (k) above (each, an

"Immediate Tender Event"), without any notice to the City or any other act by the Bank, the Commitment and the Bank's obligation to make Loans hereunder shall thereupon terminate and the Bank Bond shall immediately be deemed to be tendered for payment to the City and the City shall be obligated to pay immediately the outstanding principal amount of the Bank Bond (together with accrued interest thereon) and all other amounts owed by the City hereunder, without presentment, demand, protest or notice of any kind, all of which are hereby waived by the City. Promptly following the taking of any action or the occurrence of any event or condition referred to above, the Bank shall give notice thereof to the City, the Issuing Agent and the Dealer, but the failure to give any such notice or any delay in giving any such notice shall not impair the validity or effect of any action or event or condition referred to above.

Upon the occurrence and during the continuance of a Potential Tender Event described in clause (g) above (a "Suspension Event"), the Bank's obligation to make Loans hereunder shall be immediately and automatically suspended, without notice, and the Bank shall be under no further obligation hereunder to make Loans hereunder until the bankruptcy, insolvency or similar proceeding referred to therein is terminated prior to the court entering an order granting the relief sought in such proceeding. In the event such proceeding is terminated, then the obligation of the Bank to make Loans hereunder shall be automatically reinstated and the terms of this Agreement shall continue in full force and effect (unless the obligation of the Bank to make Loans hereunder shall otherwise have terminated as provided in this Section 7.01) as if there had been no such suspension. If at any time prior to the Maturity Date, (x) the Potential Tender Event which gave rise to such suspension is cured or has ceased to be continuing and (y) the obligation of the Bank to make Loans under this Agreement has not otherwise terminated, then, the obligation of the Bank to make Loans under this Agreement shall be automatically reinstated. If the Potential Tender Event which gave rise to the suspension of the obligation of the Bank to make Loans under this Agreement has not been cured or has not ceased to be continuing prior to Maturity Date and the obligation of the Bank to make Loans under this Agreement has not otherwise terminated, then the obligation of the Bank to make Loans hereunder shall be automatically terminated on the Maturity Date. Promptly upon the occurrence of such termination the Bank shall give written notice of the same to the City, the Issuing Agent and the Dealer; *provided*, that the Bank shall not incur any liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the termination of the obligation of the Bank to make Loans under this Agreement.

The rights, remedies, powers and privileges provided herein and in the Financing Documents are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law or in equity or otherwise. No notice to or demand on the City in any case shall entitle the City to any other or further notice or demand in similar or other circumstances or constitute a waiver of the right of the Bank to any other or further action in any circumstances without notice or demand. The Bank may remedy any default by the City hereunder or with respect to any other person, firm or corporation in a reasonable manner without waiving the default remedied and without waiving any other prior or subsequent default by the City.

**SECTION 7.02 Effect of Tender Event.** The Bank Bond shall be immediately due and payable upon its becoming subject to payment by the City pursuant to Section 7.01 above.

## ARTICLE VIII CHANGE IN CIRCUMSTANCES

**SECTION 8.01    Increased Cost and Reduced Return.** If (a) the introduction of or any change in or in the interpretation of any law or regulation, (b) the compliance with any guideline or request from any central bank or other governmental authority or (c) the introduction of any applicable law, rule, regulation or guideline regarding capital adequacy, or any change therein or any change in the interpretation or administration thereof by any central bank or governmental authority charged with the interpretation or administration thereof or compliance by the Bank (or any corporation controlling any thereof), with any request, guideline or directive regarding capital adequacy of any such central bank or other authority, shall either (i) impose, modify or deem applicable any reserve, special deposit, insurance or similar requirement against letters of credit issued by the Bank, commitments of the Bank to make loans similar to the commitments made by the Bank under this Agreement, (ii) change the basis of taxation of payments due the Bank under this Agreement or the Bank Bond (other than a change in taxation of the overall net income of the Bank) or (iii) impose on the Bank any other condition relating, directly or indirectly, to this Agreement, and the result of any event referred to in (i), (ii) or (iii) above shall be to increase the cost to the Bank of maintaining the Commitment under this Agreement or, in the case of any capital adequacy requirement, to reduce the rate of return on the Bank's capital as a consequence of its obligations under or in connection with this Agreement to a level below that which the Bank could have achieved but for the imposition of such requirement (taking into account the Bank's capital adequacy policies) or reduce any amount receivable by the Bank hereunder or in connection herewith (which increase in cost, reduction in rate of return or reduction in amount receivable shall be the result of the Bank's reasonable allocation of the aggregate of such increases or reductions resulting from such event), then the City shall, upon written notice from the Bank (which notice shall set forth the matters described below), pay to the Bank, for the account of the Bank, as the case may be, from time to time as specified by the Bank, such additional amounts as shall be demanded by the Bank as sufficient to compensate the Bank, as the case may be, for such increased cost. Any notice relating to increased costs given the City by the Bank pursuant to this Section 8.01 shall state whether the Bank has become subject to such increase in costs, reduction in rate of return or reduction in amount receivable, and such notice shall specify in reasonable detail (x) the circumstances giving rise to such increase, (y) the date of the event giving rise to such increase and (z) the amount of the increase, which amount the Bank shall certify has been computed in accordance with all applicable rules and regulations.

Notwithstanding the foregoing, for purposes of this Agreement (a) all rules, guidelines or directives in connection with the Dodd-Frank Act shall be deemed to be a change in law, regardless of the date enacted, adopted or issued, and (b) all rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Regulations and Supervisory Practices (or any successor or similar authority) shall be deemed a change in law regardless of the date enacted, adopted or issued.

The provisions of this Section 8.01 shall survive any termination of this Agreement.

## **SECTION 8.02    Taxes.**

(a) To the extent permitted by law, any and all payments by the City hereunder or under the Bank Bond shall be made free and clear of and without deduction for any and all taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding taxes imposed on the overall net income of the Bank or any Participant (and franchise taxes imposed in lieu of net income taxes) by the jurisdiction of the Bank's or Participant's applicable lending office or any political subdivision thereof (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the City shall be required by law to withhold or deduct any Taxes from or in respect of any sum payable hereunder or under the Bank Bond, then, to the extent permitted by law, (i) the sum payable shall be increased as may be necessary so that after making all required withholdings or deductions (including those applicable to additional sums payable under this Section 8.02) the Bank or Participant receives an amount equal to the sum it would have received had no such withholdings or deductions been made, (ii) the City shall make such withholdings or deductions and (iii) the City shall pay the full amount withheld or deducted to the relevant taxation authority or other authority in accordance with applicable law. Notwithstanding anything to the contrary contained herein, the City shall not be required to pay any additional amount in respect of withholding of United States Federal income taxes pursuant to this Section to the extent such withholding is required because the Bank or Participant has failed to submit any form or certificate that it is entitled to submit under applicable law to qualify for an exemption from such withholding.

(b) In addition, to the extent permitted by law, the City agrees to pay any present or future stamp or documentary taxes, charges or similar levies that arise under the laws of the United States of America and the State of Florida from any payment made or received hereunder or received under the Bank Bond or from the execution or delivery or otherwise with respect to this Agreement or the Bank Bond (hereinafter referred to as "Other Taxes").

(c) Payments by the City pursuant to this Section 8.02 shall be made within thirty (30) days from the date the Bank or the Participant, as applicable, makes written demand therefor which demand shall be accompanied by a certificate describing in reasonable detail the basis thereof, which shall be conclusive absent manifest error.

(d) Within thirty (30) days after the date of any payment of Taxes by the City, the City shall furnish to the Bank, at its address specified in or pursuant to Section 9.01 hereof, the original or a certified copy of a receipt evidencing payment thereof. The City shall compensate the Bank or Participant for all losses and expenses sustained by the Bank or Participant as a result of any failure by the City to so furnish such copy of such receipt.

(e) Without prejudice to the survival of any other agreement of the City hereunder, the agreements and obligations contained in this Section 8.02 shall survive the payment in full of principal and interest payable to the Bank hereunder and under the Bank Bond.

(f) Notwithstanding anything to the contrary in this Section 8.02, no amount or amounts payable to any Participant as a result of the provisions set forth in this Section 8.02 may exceed an amount or amounts that would have been payable to the Bank pursuant to such

provisions had the Bank retained for its own account that portion of the Commitment held by such Participant.

## **ARTICLE IX MISCELLANEOUS**

**SECTION 9.01 Notices.** Except as otherwise provided herein, all notices, requests and other communications hereunder shall be in electronic, telephonic or written form (including facsimile) and shall be given to the party to whom addressed, at its address or telephone or facsimile number or e-mail address set forth below, or such other address or telephone or facsimile number or e-mail address as such party may hereafter specify for the purpose by notice to the other parties listed below. Each such notice, request or communication shall be effective (i) if given by telephone, when given to the number indicated below to a Person which the transmitting party reasonably believes to be an authorized representative of the party to whom the notice is directed, (ii) if given by facsimile, when such communication is transmitted to the address specified below and the appropriate answerback is received, (iii) if given by email, when sent, (iv) if given by mail, three (3) days after such communication is deposited in the United States mail with first class postage prepaid, addressed as aforesaid or (v) if given by any other means, when delivered at the address specified below; *provided* that notices to the Bank under Article III shall not be effective until received; and *provided further* that No-Issuance Instructions given by the Bank to the City or the Issuing Agent shall be effective immediately upon receipt thereof:

If to the City, to:

City of Gainesville, Florida  
301 S.E. Fourth Avenue, Station A-134  
Gainesville, Florida 32601  
Attention: General Manager for Utilities  
Telephone: (352) 393-1035  
Facsimile: (352) 334-2277  
Email: bielarskiej@gru.com

If to the Bank, to:

Regarding general credit matters:

Bank of America  
100 West Garden St.  
Pensacola, Florida 32502  
Attention: Joe Miller  
Telephone: (850) 934-5946  
Facsimile: (850) 464-1065  
Email: j.r.miller@bamf.com

Regarding requests to fund Revolving Credit Loans or a Term Loan shall be sent by email and facsimile:

Bank of America  
Amy Roberts  
866.399.1509 RightFax  
Email: Amy1.l.roberts@baml.com

Joe Miller  
Fax: 850-454-1065  
Email: j.r.miller@baml.com

Eileen Ivens  
Fax: 866-361-9956  
Email: Eileen.a.ivenes@baml.com

The aforementioned notice addresses to fund Revolving Credit Loans or a Term Loan may be modified by the Bank upon 10 days advance written notice to the City and the Issuing Agent.

If to the Issuing Agent, to:

U.S. Bank National Association  
100 Wall Street, 16th floor  
New York, New York 10005  
Attention: Jean Clarke  
Telephone: (212) 361-6173  
Facsimile: (212) 361-6153  
Email: beverly.freeney@usbank.com

If to the Dealer, to:

Goldman, Sachs & Co.  
200 West Street, 5<sup>th</sup> Floor  
New York, New York 10282  
Attention: Municipal Money Market Sales and Trading – CP and  
Notes Trading  
Telephone: (212) 902-6633  
Email: ficc-municp-traders@gs.com



If to Moody's, to:

Moody's Investors Service  
7 World Trade Center at 250 Greenwich Street  
Public Finance Group - Attn: MSPG - 23rd Floor  
New York, New York 10007  
Facsimile: (212) 553-1066  
Email: MSPGSurveillance@Moody's.com

If to S&P, to:

Standard & Poor's  
55 Water Street  
38th Floor  
New York, New York 10041  
Attention: Municipal Structured Surveillance  
Telephone: (212) 438-2021  
Facsimile: (212) 438-2151  
E-mail: pubfin\_structured@sandp.com

All notices given by telephone, facsimile or other electronic means (other than email) shall be confirmed in writing as promptly as practicable.

**SECTION 9.02 No Waivers.** No failure or delay by the Bank in exercising any right, power or privilege hereunder or under the Bank Bond shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

**SECTION 9.03 Expenses; Documentary Taxes; Indemnification.**

(a) The City shall pay (i) all out-of-pocket expenses of the Bank, including fees and disbursements of counsel for the Bank (including allocated costs of in-house counsel), in connection with the preparation of this Agreement and the Financing Documents, any waiver or consent hereunder or any amendment hereof or any Potential Tender Event or alleged Potential Tender Event hereunder (*provided* that the City shall not be obligated to pay fees of counsel for the Bank in connection with the preparation of this Agreement in excess of the amount specified in the Fee Letter, plus reasonable disbursements) and (ii) if a Potential Tender Event occurs, all reasonable out-of-pocket expenses incurred by the Bank, including fees and disbursements of counsel (including allocated costs of in-house counsel), in connection with such Potential Tender Event and collection, bankruptcy, insolvency and other enforcement proceedings resulting therefrom. If and to the extent permitted by applicable law, the City shall indemnify the Bank against any transfer taxes, documentary taxes, assessments or charges made by any Governmental Authority by reason of the execution and delivery of this Agreement or the Bank Bond.

(b) If and to the extent permitted by applicable law, the City agrees to indemnify the Bank and hold the Bank harmless from and against any and all liabilities, losses,

damages, costs and expenses of any kind, including, without limitation, the reasonable fees and disbursements of counsel (including allocated costs of in-house counsel), which may be incurred by the Bank in connection with any investigative, administrative or judicial proceeding (whether or not the Bank shall be designated a party thereto) relating to or arising out of this Agreement or any Financing Document or any actual or proposed use of proceeds of Loans hereunder; *provided* that the Bank shall not have the right to be indemnified hereunder for its own gross negligence or willful misconduct as determined by a court of competent jurisdiction.

(c) Notwithstanding any other provision of this Agreement to the contrary, all obligations of the City to the Bank under this Agreement are special, limited obligations of the City payable solely from funds available for such purposes under the Subordinated Bond Resolution.

**SECTION 9.04 Amendments and Waivers.** Any provision of this Agreement, the Fee Letter or the Bank Bond may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by an Authorized Officer of the City and the Bank. Each party to this Agreement agrees that it will not rely on any course of dealing, course of performance or oral or written statement by any representative of any other party that does not comply with this Section to effect an amendment, modification, supplement, extension, termination or waiver to departure from the provisions of this Agreement or any Financing Document or any consent thereto.

**SECTION 9.05 Assignments, Participations, Etc.**

(a) This Agreement shall be binding upon and inure to the benefit of the City, the Bank, and their respective permitted successors and assigns; *provided, however*, that (i) the City may not assign or transfer any of its rights or obligations hereunder without the prior written consent of the Bank and any assignment without such consent shall be void, and (ii) the Bank shall not transfer or assign any or all of its obligations hereunder (A) unless prior to any assignment or transfer by the Bank of its obligations hereunder, the City and the Bank shall have received written evidence from each Rating Agency then rating the Commercial Paper Notes that the ratings on the Commercial Paper Notes following the assignment or transfer by the Bank of its obligations hereunder will not be reduced or withdrawn from the ratings on the Commercial Paper Notes immediately prior to such assignment or transfer, (B) without the prior written consent of the City (which consent shall not be unreasonably withheld), and (C) the Bank shall agree to pay all legal expenses and costs of the City related to such transfer or assignment.

For purposes of clause (ii)(B) of the proviso in the preceding paragraph, the City and the Bank agree that it shall not be unreasonable for the City to withhold its consent to a proposed assignment or transfer by the Bank hereunder if the City determines that such assignment or transfer would not be in the "best interests of the City or of the holders of the Commercial Paper Notes." For purposes of this Agreement and without limiting the generality of the foregoing, any such assignment or transfer shall be presumed conclusively to not be in the "best interests of the City or the holders of the Commercial Paper Notes" if the City provides the Bank with a certificate (the "City Certificate") to the effect that:

(i) for a period of forty-five (45) consecutive days immediately preceding the date of said City Certificate, tax-exempt bonds supported by the proposed assignee's or transferee's

liquidity or credit facilities having a term, credit and ratings comparable to those available under the terms of this Agreement and the Financing Documents have resulted in interest payments by borrowers utilizing the liquidity or credit facilities of the proposed assignee or transferee of a material premium in excess of the yield achieved on the Financing Documents during the same 90-day period as referenced in the City Certificate,

(ii) pursuant to an official vote of the City Commission completed no less than thirty (30) days prior to the date of the City Certificate, the assignment or transfer by the Bank to the proposed assignee or transferee would violate official written policy of the City, a copy of which policy shall accompany the City Certificate,

(iii) the proposed assignee or transferee, as the case may be, and the City are involved in a dispute or a potential dispute which would make such assignment or transfer undesirable to the City as described in a summary of the dispute or potential dispute included in said City Certificate, or

(iv) the proposed assignee or transferee, as the case may be, has failed to perform satisfactorily in any prior business arrangement with the City as described in a summary of said business arrangement and failure included in said City Certificate.

The Bank will give the City written notice of any proposed assignment or transfer ("Notice of Assignment") of any or all of its obligations hereunder no less than thirty (30) days prior to the effective date thereof. The City must deliver the City Certificate described in the immediately preceding paragraph within ten (10) Business Days of receipt of the Notice of Assignment and a failure of the City to deliver the City Certificate within such ten (10) Business Day period shall be deemed and treated as the City's consent to the assignment or transfer, as applicable, described in said Notice of Assignment. In addition to the foregoing, if a Tender Event has occurred and is continuing hereunder, then the Bank will be under no obligation to deliver a Notice of Assignment and may proceed with the assignment or transfer on the proposed effective date therefor without obtaining the consent of the City thereto.

(b) Notwithstanding the foregoing provisions, the Bank may at any time sell to one or more banks or other entities (a "Participant") participating interests in any Loans, the Commitment or any other interest of the Bank hereunder; *provided* that (i) the Bank's obligations under this Agreement shall remain unchanged, (ii) the Bank shall remain solely responsible for the performance of such obligations, (iii) the City shall continue to deal solely and directly with the Bank in connection with the Bank's rights and obligations under this Agreement, and (iv) the Bank shall not transfer or grant any participating interest under which the Participant shall have rights to approve any amendment to, or any consent or waiver with respect to this Agreement. In the case of any such participation, the Participant shall not have any rights under this Agreement, or any of the Financing Documents, and all amounts payable by the City hereunder shall be determined as if the Bank had not sold such participation, except that if amounts outstanding under this Agreement are due and unpaid, or the Bank Bond shall have become due and payable upon the occurrence of a Tender Event, each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Agreement to the same extent as if the amount of its participating interest were owing directly to it as the Bank under this Agreement.

(c) The Bank may at any time pledge or grant a security interest in all or any portion of its rights under the Bank Bond, this Agreement and the other Financing Documents to secure obligations of the Bank, including any pledge or assignment to secure obligations to a Federal Reserve Bank or Federal Home Loan Bank; *provided* that no such pledge or assignment shall release the Bank from any of its obligations hereunder or substitute any such pledgee or assignee for the Bank as a party hereto.

**SECTION 9.06 Governing Law.** THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF FLORIDA.

**SECTION 9.07 Counterparts; Integration.** This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement constitutes the entire agreement and understanding among the parties hereto and, except with respect to the other documents and agreements referred to herein, supersedes any and all prior agreements and understandings, oral or written, relating to the subject matter hereof.

**SECTION 9.08 Waiver of Jury Trial.** THE CITY AND THE BANK EACH HEREBY IRREVOCABLY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.


**SECTION 9.09 Jurisdiction; Venue.** With respect to any suit, action or proceeding relating to, or arising from, this Agreement, each party hereto irrevocably submits to the jurisdiction of the courts of the State of Florida and the federal courts located in the State of Florida and agrees that any such suit, action or proceeding shall be had and maintained in the Eighth Judicial Circuit Court and applicable appellate courts.

**SECTION 9.10 Patriot Act Notice.** The Bank hereby notifies the City that pursuant to the requirements of the Patriot Act it is required to obtain, verify and record information that identifies the City, which information includes the name and address of the City and other information that will allow the Bank to identify the City in accordance with the Patriot Act. The City hereby agrees that it shall promptly provide such information upon request by the Bank.

**SECTION 9.11 Arm's Length Transaction.** The City acknowledges and agrees that (a) the transactions contemplated by this Agreement and the Fee Letter are an arm's-length commercial transaction between the City and the Bank, (b) in connection with such transactions, the Bank is acting solely as a principal and not as an agent or a fiduciary of the City, (c) with respect to making advances hereunder or the process leading thereto (whether or not the Bank has advised or is currently advising the City on other matters), the Bank has not assumed (individually or collectively) a fiduciary responsibility in favor of the City or any other obligation of the City except the obligations expressly set forth in this Agreement and the Fee Letter and (d) the City has consulted with its own legal and financial advisors to the extent it deemed appropriate in connection with the transactions contemplated by this Agreement and the Fee Letter.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

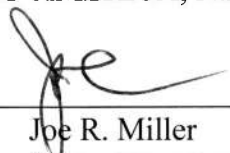
CITY OF GAINESVILLE, FLORIDA

By:   
Name: Edward J. Bielarski, Jr.  
Title: General Manager for Utilities

Approved as to form and legality:

  
Shayla L. McNeill  
Utilities Attorney

BANK OF AMERICA, N.A.

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

#37195369\_v8  
136433-6

FORM OF NOTICE OF REVOLVING CREDIT BORROWING

[Date]

To: Bank of America, N.A. (the "Bank")  
From: City of Gainesville, Florida (the "City")  
Re: Credit Agreement, dated November 30, 2015,  
between the City and the Bank (the "Credit Agreement")

We hereby give notice, on behalf of the City, pursuant to Section 3.02(a) of the Credit Agreement, of the following proposed Revolving Credit Loan:

Date of Loan: \_\_\_\_\_

Amount of Loan: \_\_\_\_\_

You are directed to pay the amount of the Loan on \_\_\_\_\_ in accordance with the following wire transfer instructions:

U.S. BANK TRUST NA  
ABA #091 000 022  
A/C# 1731 0185 1827  
A/C Name: U.S. Bank Trust  
Attn.: Rosalyn Callender  
REF: GAINESVILLE

Terms used herein have the meanings assigned to them in the Credit Agreement.

CITY OF GAINESVILLE, FLORIDA

By U.S. BANK NATIONAL ASSOCIATION,  
as Issuing Agent

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

FORM OF NOTICE OF TERM BORROWING

[Date]

To: Bank of America, N.A. (the "Bank")  
From: City of Gainesville, Florida (the "City")  
Re: Credit Agreement, dated November 30, 2015,  
between the City and the Bank (the "Credit Agreement")

We hereby give notice, on behalf of the City, pursuant to Section 3.02(b) of the Credit Agreement, of the following proposed Term Loan:

Date of Loan: \_\_\_\_\_

Amount of Loan: \_\_\_\_\_

You are directed to pay the amount of the Loan on \_\_\_\_\_ in accordance with the following wire transfer instructions:

U.S. BANK TRUST NA  
ABA #091 000 022  
A/C# 1731 0185 1827  
A/C Name: U.S. Bank Trust  
Attn.: Rosalyn Callender  
REF: GAINESVILLE

Terms used herein have the meanings assigned to them in the Credit Agreement.

CITY OF GAINESVILLE, FLORIDA

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



FORM OF NO-ISSUANCE INSTRUCTIONS

City of Gainesville, Florida  
301 S.E. Fourth Avenue  
Gainesville, Florida 32601  
Attention: General Manager for Utilities  
(FAX: [(352) 334-2277])

U.S. Bank National Association  
100 Wall Street, 16th floor  
New York, New York 10005  
Attention: Jean Clarke  
(FAX: (212) 361-6153)

Dear Ladies and Gentlemen:

The undersigned, Bank of America, N.A., pursuant to the Credit Agreement, dated November 30, 2015 (the "Credit Agreement"), between the undersigned and the City of Gainesville, Florida (the "City"), hereby gives notice to the City and U.S. Bank National Association, in its capacity as successor Issuing Agent under the Issuing and Paying Agency Agreement dated as of February 1, 1995, between Bankers Trust Company and the City, as amended, that [a [Potential] Tender Event under [specify applicable Section(s) of the Credit Agreement] has occurred and is continuing][a material representation or warranty of the City in [specify applicable Section(s) of the Credit Agreement] is not true and correct on and as of the date hereof], and hereby instructs you not to issue, authenticate or deliver any Commercial Paper Notes (other than those Commercial Paper Notes permitted to be issued, authenticated and delivered as provided in Section 2.01(b) of the Credit Agreement) from and after your receipt of these No-Issuance Instructions, until these No-Issuance Instructions are rescinded in writing by the undersigned.

Terms used herein and not defined shall have the meanings set forth in the Credit Agreement.

Very truly yours,

BANK OF AMERICA, N.A.

By \_\_\_\_\_

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

FORM OF OPINION OF THE OFFICE OF THE CITY ATTORNEY

[Effective Date]

Bank of America, N.A.  
Pensacola, Florida

Holland & Knight LLP  
Lakeland, Florida

Ladies and Gentlemen:

We have acted as issuer's counsel to the City of Gainesville, Florida, a municipal corporation duly created, organized and existing under the laws of the State of Florida (the "City"), in connection with the execution and delivery of the Credit Agreement (the "Credit Agreement"), dated November 30, 2015, between the City and Bank of America, N.A. (the "Bank"). This opinion is being rendered to you at the request of the City pursuant to Section 4.01(d)(i) of the Credit Agreement.

As such counsel we have examined, among other things, (a) the Constitution and laws of the State of Florida, including Chapter 90-394, Laws of Florida, 1990, as amended and supplemented to the date hereof, Chapter 166, Part II, Florida Statutes, as amended and supplemented to the date hereof, and other applicable provisions of law, (b) the proceedings of the City authorizing the execution and delivery of the Credit Agreement, (c) the Utilities System Revenue Bond Resolution of the City, adopted June 6, 1983, as supplemented, amended and restated to the date hereof (the "Bond Resolution"), (d) the Subordinated Utilities System Revenue Bond Resolution of the City, adopted January 26, 1989, as supplemented, amended and restated to the date hereof, including as supplemented by the Second Supplemental Subordinated Utilities System Revenue Bond Resolution of the City, adopted October 6, 1992 (such Subordinated Utilities System Revenue Bond Resolution, as so supplemented, amended and restated, being referred to herein as the "Subordinated Bond Resolution"), (e) the Amended and Restated Issuing and Paying Agency Agreement dated as of February 1, 1995, between the City and Bankers Trust Company, (f) the Credit Agreement and (g) the Fee Letter, dated of even date herewith, between the City and the Bank (the "Fee Letter"), and have made such other investigations of law and fact as we have deemed necessary to render the following opinion. We have assumed that all signatures (other than those of officials of the City) and all documents we reviewed are genuine, and that all copies submitted to us are genuine and accurate copies of the originals of such documents.

Capitalized terms not otherwise defined herein shall have the same meanings given to such terms in the Credit Agreement.

Based upon the foregoing, it is our opinion that:

- (1) The City (a) is a municipal corporation duly organized and validly existing under the laws of the State of Florida, (b) has all requisite power and authority and the

legal right to own and operate the System, and (c) to our knowledge (without independent investigation), is in compliance with all Requirements of Law, except to the extent that the failure to comply therewith would not, in the aggregate, have a material adverse effect on the business, operations, property or financial or other condition of the System, and would not materially adversely affect the ability of the City to perform its obligations under the Resolutions, the Credit Agreement and the Bank Bond.

(2) The City has all requisite power and authority and the legal right to adopt the Resolutions, to make, deliver and perform the Credit Agreement, the Fee Letter and the Bank Bond and to borrow under the Credit Agreement and to secure the payment of its obligations in respect of such borrowings by the pledge of the Subordinated Indebtedness Fund as provided in the Subordinated Bond Resolution, and has taken all necessary action to authorize the borrowings and such pledge on the terms and conditions of the Credit Agreement, the Bank Bond and the Resolutions, and to authorize the execution, delivery and performance of the Credit Agreement, the Fee Letter and the Bank Bond. No consent or authorization of, filing with, or other act by or in respect of any Governmental Authority is required in connection with the borrowings under the Credit Agreement or with the execution, delivery, performance, validity or enforceability of the Credit Agreement, the Fee Letter, the Bank Bond or the other Financing Documents. The Bond Resolution and the Subordinated Bond Resolution have been duly adopted and are in full force and effect and the Credit Agreement and the Fee Letter have been duly authorized, executed and delivered by the City, and, assuming due authorization, execution and delivery by the other party thereto, are in full force and effect. The Bank Bond has been duly executed and delivered on behalf of the City. The Credit Agreement, the Fee Letter and the Bank Bond constitute legal, valid and binding obligations of the City enforceable against the City in accordance with their respective terms, and no other authorization on the part of the City is required in connection with the Credit Agreement, the Fee Letter and the Bank Bond. The Bank Bond is a direct and special obligation of the City payable from amounts in the Subordinated Indebtedness Fund and does not constitute a general indebtedness or a pledge of the full faith and credit of the City within the meaning of any constitutional or statutory provision or limitation of indebtedness, nor constitute a lien on any property of or in the City other than the pledge of the Subordinated Indebtedness Fund as provided in the Subordinated Bond Resolution.

(3) The execution, delivery and performance of the Credit Agreement, the Fee Letter and the Bank Bond, the borrowings under the Credit Agreement and the use of the proceeds thereof will not violate any constitutional provision or applicable material law of the State of Florida or, to our knowledge, any judgment or decree of any arbitrator, court or other Governmental Authority, or, to our knowledge, any other material Requirement of Law or, to our knowledge, any material Contractual Obligation of the City, and, except for the pledge of the Subordinated Indebtedness Fund effected by the Subordinated Bond Resolution, will not result in, or require, the creation or imposition of any lien or encumbrance on or security interest in any of the properties or Revenues of the System pursuant to any such Requirement of Law or Contractual Obligation.

(4) Except as disclosed in the Reoffering Memorandum dated \_\_\_\_\_, 2015 no litigation or proceeding or, to our knowledge, investigation of or before any arbitrator

or Governmental Authority is pending or, to our knowledge, threatened by or against the City or against any of its properties or revenues (a) with respect to any of the Resolutions, the Credit Agreement, the Fee Letter or the Bank Bond or any of the transactions contemplated thereby, or (b) which would have a material adverse effect on the business, operations, property or financial or other condition of the System or the ability of the City to perform its obligations under the Bond Resolution, the Subordinated Bond Resolution, the Credit Agreement, the Fee Letter or the Bank Bond or in respect of any other Indebtedness incurred to finance or otherwise in respect of the System or secured by Revenues or other assets of the System; provided, that no opinion is rendered with respect to any litigation or proceeding which has been commenced but of which the City has not been notified and of which we have no knowledge.

The foregoing opinions are subject to the effect of, and restrictions and limitations imposed by or resulting from, bankruptcy, insolvency, debt adjustment, moratorium, reorganization or other similar laws affecting creditors' rights and judicial discretion and the valid exercise of the sovereign police powers of the State of Florida and of the constitutional power of the United States of America.

By use of the word "enforceable" in this opinion, we are not rendering any opinion as to the availability of the remedy of specific performance or other equitable relief.

All opinions expressed are limited solely to Florida law. No opinion is expressed as to the laws of any other state. No opinion is expressed herein as to compliance with federal or state securities registration laws.

Our opinion is limited in all respects to the laws existing on the date hereof. By providing this opinion to you, we do not undertake to advise you of any changes in the law which may occur after the date hereof or to revise, update or modify this opinion subsequent to the date hereof.

This letter is furnished solely to you in connection with the transaction described herein, and may not be quoted, furnished to or relied upon by any other person or entity in any manner or for any purpose.

Yours truly,

OFFICE OF THE CITY ATTORNEY

By \_\_\_\_\_  
Shayla L. McNeill  
Utilities Attorney

FORM OF OPINION OF HOLLAND & KNIGHT LLP

[Effective Date]

City of Gainesville, Florida  
Gainesville, Florida

Bank of America, N.A.  
Pensacola, Florida

Re: Utilities System Commercial Paper Notes, Series C (the "Notes")

Ladies and Gentlemen:

We are acting as Bond Counsel to the City of Gainesville, Florida (the "City") in connection with the execution of a Credit Agreement (the "Substitute Credit Agreement"), dated November 30, 2015, between the City and Bank of America, N.A. (the "Replacement Liquidity Provider") as a replacement for an existing Credit Agreement dated as of March 1, 2000 between the City and Bayerische Landesbank Girozentrale, to provide credit support for the above-referenced Notes (the "Substitution").

On April 25, 2008, Orrick, Herrington & Sutcliffe LLP, New York, New York, as Bond Counsel for the issuance of the Notes, delivered their opinion that, assuming compliance with certain covenants, under existing law, interest on the Notes was excluded from gross income for purposes of federal income taxation and would not be treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations (the "2008 Opinion").

This opinion is delivered in accordance with the requirements of Section 4.01(d)(ii) of the Substitute Credit Agreement. All capitalized terms not otherwise defined herein shall such meanings as given in the Substitute Credit Agreement or the hereinafter defined Subordinated Bond Resolution.

In such connection, we have reviewed the Substitute Credit Agreement; the Fee Letter; a certified copy of the Utilities System Revenue Bond Resolution of the City, adopted June 6, 1983, as supplemented, amended and restated to the date hereof (the "Bond Resolution"); a certified copy of the Subordinated Utilities System Revenue Bond Resolution of the City, adopted January 26, 1989, as supplemented, amended and restated to the date hereof, including as supplemented by the Second Supplemental Subordinated Utilities System Revenue Bond Resolution of the City, adopted June 15, 2000 (such Subordinated Utilities System Revenue Bond Resolution, as so supplemented, amended and restated, being referred to herein as the "Subordinated Bond Resolution"); a certified copy of the Amended and Restated Issuing and Paying Agency Agreement dated as of February 1, 1995, between the City and Bankers Trust Company, as amended to the date hereof; an opinion of the Office of City Attorney of the City, the 2008 Opinion and certificates of the City and others.

We have also examined and relied upon (i) such other agreements, certificates, documents and opinions of various parties relating to the Notes as we have deemed relevant and necessary in connection with the opinions expressed below, and (ii) such other agreements, certificates, documents and opinions, including certificates and representations of public officials and other officers and representatives of the various parties participating in the substitution 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 or contained in any of the documents referenced above, 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, the conformity to originals of documents submitted as copies, the requisite individual or corporate power and authority of the respective parties thereto under the laws of their respective jurisdictions of organization, the due authorization, execution and delivery of the Substitute Credit Agreement by the respective duly authorized parties thereto and the enforceability of the Substitute Credit Agreement against each party thereto or person to be bound thereby.

With respect to any factual matters upon which the legal conclusions herein are based, we have not undertaken an independent audit, examination, investigation or inspection of the matters described or contained in the certificates, documents and representations upon which we have relied and we have relied solely upon the facts, estimates and circumstances described therein.

The opinions set forth below are expressly limited to, and we opine only with respect to, the federal income tax laws of the United States.

Based upon and subject to the foregoing, we are of the opinion that, as of the date hereof and under existing law the Substitution, will not, in and of itself, adversely affect the exclusion of interest on the Notes from gross income for purposes of federal income taxation.

The only opinions rendered hereby are those expressly stated as such herein, and no other opinion shall be implied or inferred as a result of anything contained herein or omitted to be stated herein. No opinion is hereby expressed as to the validity or enforceability of the Substitute SBPA or any other documents. In addition, we have not conducted any investigation or analysis of the tax-exempt status of the Notes as of the date of issuance thereof or for any period thereafter, and render no opinion with respect thereto. Accordingly, the foregoing opinion relates only to the Substitution and is not and should not be construed as an opinion as to the past, current or continuing exclusion from gross income for federal income tax purposes of interest payable on the Notes.

The opinion set forth herein is predicated upon present law and interpretations thereof. We assume no affirmative obligations with respect to any change of circumstances, laws or interpretations thereof after the date hereof that may adversely affect the opinions expressed herein.

The scope of our engagement in relation to the Substitution has been limited solely to the examination of facts and law incident to rendering the opinion expressed herein. We have not been engaged to confirm or verify and therefore express no opinion as to the accuracy, completeness, fairness or sufficiency of any offering material relating to the Notes or the Substitution.

This opinion is rendered only for the benefit of the parties addressed above and may not be relied upon by any other party without our prior written consent.

Sincerely yours,

HOLLAND & KNIGHT LLP

FORM OF OPINION OF COUNSEL TO THE BANK

**MARK E. RAYMOND**

ATTORNEY AT LAW

4360 NORTHLAKE BOULEVARD  
SUITE 204  
PALM BEACH GARDENS, FL 33410  
Tel: 561.775.8440  
Fax: 561.775.8442  
mark.raymond@mraymondllaw.com

November 30, 2015

City of Gainesville, Florida

Re: Credit Agreement with Bank of America, N.A.

Ladies and Gentlemen:

I have served as counsel to Bank of America, N.A., a national banking association (the "Bank") in connection with the Credit Agreement and Fee Agreement (collectively, the "Agreement") each dated of even date herewith and each between the Bank and City of Gainesville, Florida (the "City").

It is my opinion that under the laws of the State of Florida and the United States of America:

1. The Bank is a national banking association duly organized and validly existing under the laws of the United States of America. The Bank has all necessary right, power and authority to perform the obligations of the Bank under the Agreement.

2. The Agreement has been duly authorized, executed and delivered by the Bank and, assuming that the Agreement is a valid and binding agreement of the City, the Agreement constitutes a valid and legally binding obligation of the Bank enforceable in accordance with its terms, except as such enforceability may be limited by applicable insolvency, reorganization, liquidation, moratorium, readjustment of debt or other similar laws affecting the enforcement of creditors' rights, as such laws may be applied in the event of an insolvency, reorganization, liquidation, readjustment of debt or similar proceedings or a moratorium with respect to the obligations of the Bank, and subject to the application of general principles of equity regardless of whether such enforceability is considered in a proceeding at law, or in equity.

This letter does not establish a lawyer-client relationship between the City and me. This letter is solely for the benefit of the City and may not be relied upon by any person other than the City.

Very truly yours,

Mark E. Raymond



## APPENDIX E

### INFORMATION REGARDING SERIES D BANK AND THE SERIES D CREDIT AGREEMENT

State Street Bank and Trust Company (the "Series D Bank") is a wholly-owned subsidiary of State Street Corporation (the "Corporation"). The Corporation (NYSE: STT), through its subsidiaries, including the Series D Bank, provides a broad range of financial products and services to institutional investors worldwide. With \$28.77 trillion in assets under custody and administration and \$2.47 trillion in assets under management as of December 31, 2016, the Corporation operates in more than 100 geographic markets worldwide. As of December 31, 2016, the Corporation had consolidated total assets of \$242.70 billion, consolidated total deposits (including deposits in non-U.S. offices) of \$187.16 billion, total investment securities of \$97.17 billion, total loans and leases, net of unearned income and allowance for loan losses, of \$19.70 billion, and total shareholders' equity of \$21.22 billion.

The Series D Bank's *Consolidated Reports of Condition and Income for A Bank With Domestic and Foreign Offices Only -- FFIEC 031* (the "Call Reports") through December 31, 2016 have been submitted through the Federal Financial Institutions Examination Council and provided to the Board of Governors of the Federal Reserve System, the primary U.S. federal banking agency responsible for regulating the Corporation and the Series D Bank. Publicly available portions of those Call Reports, and future Call Reports so submitted by the Series D Bank, are available on the Federal Deposit Insurance Corporation's website at [www.fdic.gov](http://www.fdic.gov). The Call Reports are prepared in conformity with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles.

Additional financial and other information related to the Corporation and the Series D Bank, including the Corporation's Annual Report on Form 10-K for the year ended December 31, 2016 and additional annual, quarterly and current reports subsequently filed or furnished by the Corporation with the U.S. Securities and Exchange Commission (the "SEC"), can be accessed free of charge on the SEC's website at [www.sec.gov](http://www.sec.gov).

Any statement contained in any document referred to above shall be deemed to be modified or superseded for purposes of this Offering Memorandum to the extent that a statement contained herein or in any subsequently submitted, filed or furnished document that also is referred to above modifies or supersedes such statement. The delivery hereof shall not create any implication that there has been no change in the affairs of the Series D Bank or the Corporation since December 31, 2016, or that information contained or referred to in this Appendix is correct as of any time subsequent to December 31, 2016. The information concerning the Corporation, the Series D Bank or any of their respective affiliates is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced here.

A copy of any or all of the publicly available portions of the documents referred to above, other than exhibits to such documents, may be obtained without charge to each person to whom a copy of this Offering Memorandum has been delivered, on the written request of any such person. Written requests for such copies should be directed to Investor Relations, State Street Corporation, One Lincoln Street, Boston, Massachusetts 02111, telephone number 617-786-3000.

**The Series D Credit Agreement is an obligation solely of the Series D Bank and is not an obligation of, or otherwise guaranteed by, the Corporation or any of its affiliates (other than the Series**

**D Bank). Neither the Corporation nor any of its affiliates (other than the Series D Bank) is required to make payments under the Series D Credit Agreement. None of the Series D Bank, the Corporation or any of their respective affiliates makes any representation as to, or is responsible for the suitability of the CP Notes for any investor, the feasibility or performance of any project or compliance with any securities or tax laws or regulations. The CP Notes are not direct obligations of, or guaranteed by, the Series D Bank, the Corporation or any of their respective affiliates, except to the extent provided in the Series D Credit Agreement.**

The Series D Credit Agreement is attached hereto and made part of this APPENDIX E.

---

**CREDIT AGREEMENT**

**between**

**CITY OF GAINESVILLE, FLORIDA**

**and**

**STATE STREET BANK AND TRUST COMPANY**

**Dated as of August 1, 2014**

---

## TABLE OF CONTENTS

Page #

### ARTICLE I DEFINITIONS

SECTION 1.01	Definitions. ....	1
SECTION 1.02	Accounting Terms and Determinations. ....	7
SECTION 1.03	Interpretation .....	7

### ARTICLE II COMMERCIAL PAPER OPERATIONS

SECTION 2.01	Issuance of Commercial Paper Notes. ....	8
--------------	--	---

### ARTICLE III THE CREDITS

SECTION 3.01	Commitment to Lend. ....	10
SECTION 3.02	Method of Borrowing. ....	11
SECTION 3.03	Bank Bond. ....	12
SECTION 3.04	Maturity of Loans. ....	12
SECTION 3.05	Interest Rates. ....	12
SECTION 3.06	Fees. ....	13
SECTION 3.7	Optional Termination or Reduction of Commitment. ....	13
SECTION 3.08	Mandatory Termination of Commitment. ....	14
SECTION 3.09	Optional Prepayments. ....	14
SECTION 3.10	General Provisions as to Payments. ....	14
SECTION 3.11	Computation of Interest and Fees. ....	15

### ARTICLE IV CONDITIONS

SECTION 4.01	Effectiveness. ....	15
SECTION 4.02	Revolving Credit Borrowings. ....	17
SECTION 4.03	Term Borrowing. ....	17

### ARTICLE V REPRESENTATIONS AND WARRANTIES

SECTION 5.01	Financial Condition. ....	18
SECTION 5.02	No Change. ....	18
SECTION 5.03	Organization; Compliance with Law. ....	18
SECTION 5.04	Power; Authorization; Enforceable Obligations. ....	18
SECTION 5.05	No Legal Bar. ....	19
SECTION 5.06	No Material Litigation. ....	19
SECTION 5.07	No Default. ....	19
SECTION 5.08	Security, Etc. ....	19
SECTION 5.09	Federal Reserve Regulations. ....	20
SECTION 5.10	ERISA Matters. ....	20
SECTION 5.11	Legislation. ....	20

SECTION 5.12	Sovereign Immunity. ....	20
SECTION 5.13	Reoffering Memorandum .....	20
SECTION 5.14	Full Disclosure.....	20
SECTION 5.15	Incorporation by Reference. ....	20
SECTION 5.16	Environmental Laws.....	21
SECTION 5.17	Rate Increases. ....	21
SECTION 5.18	Anti-Corruption Laws and Sanctions. ....	21

## **ARTICLE VI COVENANTS**

SECTION 6.01	Resolutions. ....	21
SECTION 6.02	Financial and Other Information. ....	21
SECTION 6.03	Inspection of Property; Discussions. ....	22
SECTION 6.04	Notices. ....	22
SECTION 6.05	Resolutions, Etc. ....	22
SECTION 6.06	Payment of Bank Bond.....	23
SECTION 6.07	Further Assurance.....	23
SECTION 6.08	Power to Fix and Collect Rates, Fees and Charges. ....	23
SECTION 6.09	Replacement of this Agreement. ....	23
SECTION 6.10	Sovereign Immunity. ....	24
SECTION 6.11	Most Favored Nation. ....	24
SECTION 6.12	Maintenance of Rating.....	25
SECTION 6.13	Compliance with Laws. ....	25
SECTION 6.14	Appointment of Successors and Assigns.....	25
SECTION 6.15	Anti-Corruption Laws and Sanctions .....	26

## **ARTICLE VII TENDER EVENTS**

SECTION 7.01	Tender Events. ....	26
SECTION 7.02	Effect of Tender Event. ....	29

## **ARTICLE VIII CHANGE IN CIRCUMSTANCES**

SECTION 8.01	Increased Cost and Reduced Return. ....	30
SECTION 8.02	Taxes.....	31

## **ARTICLE IX MISCELLANEOUS**

SECTION 9.01	Notices.....	32
SECTION 9.02	No Waivers.....	34
SECTION 9.03	Expenses; Documentary Taxes; Indemnification. ....	34
SECTION 9.04	Amendments and Waivers.....	35
SECTION 9.05	Assignments, Participations, Etc. ....	35
SECTION 9.06	Governing Law. ....	36
SECTION 9.07	Counterparts; Integration .....	36
SECTION 9.08	Waiver of Jury Trial. ....	36
SECTION 9.09	Jurisdiction; Venue. ....	36
SECTION 9.10	Patriot Act Notice .....	37

Exhibit A	Form of Notice of Revolving Credit Borrowing
Exhibit B	Form of Notice of Term Borrowing
Exhibit C	Form of No-Issuance Instructions
Exhibit D-1	Form of Opinion of the Office of the City Attorney of the City
Exhibit D-2	Form of Opinion of Bond Counsel for the City
Exhibit E	Form of Opinion of Counsel to the Bank

## **CREDIT AGREEMENT**

CREDIT AGREEMENT, dated as of August 1, 2014, between THE CITY OF GAINESVILLE, FLORIDA (the "City") and STATE STREET BANK AND TRUST COMPANY (the "Bank").

WHEREAS, the City is a municipal corporation duly organized and existing under the laws of the State of Florida and established under its Charter, Chapter 90-394, Laws of Florida, as amended (the "Act");

WHEREAS, the City is authorized pursuant to the Act to own, manage and operate the System (as defined in the Bond Resolution (as defined below));

WHEREAS, pursuant to a resolution adopted by the City on January 26, 1989 authorizing the issuance of the City's Subordinated Utilities System Revenue Bonds, as supplemented, amended and restated, the City has authorized the issuance from time to time of up to \$25,000,000 aggregate outstanding principal amount of Utilities System Commercial Paper Notes, Series D (the "Commercial Paper Notes"); and

WHEREAS, the Bank has agreed to make loans, solely on the terms and conditions set forth herein, to the City to enable the City to pay the Commercial Paper Notes upon maturity;

NOW THEREFORE, the parties hereto agree as follows:

### **ARTICLE I**

#### **DEFINITIONS**

##### **SECTION 1.01    Definitions.**

(a) Capitalized terms used herein but not otherwise defined in subsection (b) below or elsewhere herein shall have the meanings given to them in the Subordinated Bond Resolution (as defined below).

(b) The following terms, as used herein, have the following meanings:

"Affiliate" means as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. A Person shall be deemed to control another Person if the controlling Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the other Person, whether through the ownership of voting securities, by contract or otherwise. Without limitation, any director, executive officer or beneficial owner of 5% or more of the equity of a Person shall, for the purposes of this Agreement, be deemed to control the other Person.

"Agreement" means this Credit Agreement, dated as of August 1, 2014, between the City and the Bank, as the same may be amended or modified from time to time.

“Anti-Corruption Laws” means all laws, rules, and regulations of any jurisdiction applicable to the City from time to time concerning or relating to bribery or corruption.

“Authorized Officer of the City” shall have the meaning ascribed thereto in the Bond Resolution.

“Bank Bond” means the Utilities System Subordinated Bank Bond, Series B of the City to be delivered to the Bank pursuant to Section 4.01(c) hereof substantially in the form set forth in Article VIII of the Fourth Supplemental Subordinated Bond Resolution, evidencing the obligation of the City to repay the Loans.

“Bank Rate” means, for each day of determination with respect to each Loan, (i) for the period from and including the initial date of such Loan to and including the 30th calendar day following such initial date of such Loan, the Base Rate, (ii) for the period from and including the 31st calendar day following the initial date of such Loan to and including the 90th calendar day following such initial date of such Loan, the Base Rate plus 1.00%, and (iii) for (A) the period from and including the 91st calendar day following the initial date of such Loan and thereafter until such Loan is due and payable and (B) the Term Loan, the Base Rate plus 2.00%. Notwithstanding the foregoing, from and after the earlier of (i) the date amounts are owed hereunder, but only so long as not paid when due, and (ii) during the occurrence and continuance of a Tender Event, all amounts owed hereunder (including with respect to the Loans) shall bear interest at the Default Rate. At no time shall the Bank Rate with respect to any Loan be less than the interest rate borne by any outstanding Commercial Paper Notes.

“Base Rate” means, for any day, a rate per annum equal to the highest of (a) Prime Rate plus 2.00%, (b) the Federal Funds Rate plus 3.00%, and (c) 7.00%. Each change in the Base Rate shall take effect simultaneously with the corresponding change or changes in the Prime Rate or Federal Funds Rate, as the case may be.

“BLB Credit Agreement” means the Credit Agreement, dated as of March 1, 2000, between the City and Bayerische Landesbank (formerly known as Bayerische Landesbank Girozentrale), acting through its New York Branch, as amended, relating to the City’s Utilities System Commercial Paper Notes, Series C, as the same may be extended or further amended or supplemented.

“Bond Resolution” means the Utilities System Revenue Bond Resolution adopted by the City on June 6, 1983, as heretofore supplemented, amended and restated and as it may be further supplemented and amended from time to time in accordance with the terms hereof and thereof.

“Bonds” shall have the meaning ascribed thereto in the Bond Resolution.

“Business Day” means any day, other than a Saturday or Sunday, on which the principal office of the City, the principal corporate trust office of the Trustee and the lending office of the Bank under this Agreement is open for business during its normal business hours.

“Commitment” means the amount of \$25,000,000, as such amount may be reduced from time to time pursuant to Sections 3.07 and 3.08.



“Contractual Obligation” means, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or undertaking to which such Person is a party or by which it or any of its property is bound.

“Dealer” means Goldman, Sachs & Co., in its capacity as dealer for the Commercial Paper Notes under the Dealer Agreement, and its successors in such capacity.

“Dealer Agreement” means the Dealer Agreement Relating to Utilities System Commercial Paper Notes, Series D, dated as of June 15, 2000, between the City and the Dealer, as amended and supplemented from time to time in accordance with the terms thereof and hereof.

“Default Rate” means a per annum rate of interest equal to the Base Rate then in effect plus 3.00%.

“Dodd-Frank Act” means the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as enacted by the United States Congress, and signed into law on July 21, 2010, and all statutes, rules, guidelines or directives promulgated thereunder.

“Effective Date” means the date this Agreement becomes effective in accordance with Section 4.01 or such later date as shall be agreed upon by the City and the Bank.

“Environmental Laws” means all federal, state or local laws, statutes, common law duties, rules, regulations, ordinances and codes, together with all administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case relating to Hazardous Materials or to environmental, health, safety and land use matters applicable to any property.

“Environmental Liability” means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the System directly or indirectly resulting from or based upon (a) violation of any Environmental Laws, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

“Federal Funds Rate” means, for any day, the rate of interest per annum as determined by the Bank at which overnight Federal funds are offered to the Bank for such day by major banks in the interbank market, with any change in such rate to become effective as to the City on the date of any change in such rate. Each determination of the Federal Funds Rate by the Bank shall be deemed conclusive and binding on the City absent manifest error.

“Fee Letter” has the meaning set forth in Section 3.06.

“Financing Documents” means the Bond Resolution, the Subordinated Bond Resolution, the Issuing and Paying Agency Agreement, the Dealer Agreement, the Fee Letter, the Bank Bond and the Commercial Paper Notes.

“Fitch” means Fitch, Inc. d/b/a Fitch Ratings and its successors and assigns, and if such corporation (i) shall be dissolved or liquidated or (ii) shall no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized statistical rating organization (other than Moody’s or S&P) designated by the Bank and approved by the City if such an organization shall exist.

“Fourth Supplemental Subordinated Bond Resolution” means the Fourth Supplemental Subordinated Utilities System Revenue Bond Resolution adopted by the City on June 15, 2000 authorizing the issuance of the Commercial Paper Notes and the Bank Bond, as amended and supplemented from time to time in accordance with the terms thereof and hereof, supplementing the Subordinated Bond Resolution.

“GAAP” has the meaning set forth in Section 1.02.

“Governmental Authority” means any nation or government, any state or other political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

“Hazardous Materials” means dangerous, toxic or hazardous pollutants, contaminants, chemicals, waste, material or substances (as defined in Environmental Laws), and shall include any urea formaldehyde, polychlorinated biphenyls, asbestos, asbestos containing material, nuclear fuel or waste, radioactive materials, explosives, carcinogens and petroleum products, or any other waste, materials, substance, pollutant or contaminant the improper storage, disposal or release of which would subject the person so storing, disposing or releasing (or the owner of the property on which such action occurs) to any damages, penalties or liabilities under any applicable law, regulation, requirement or rule.

“Immediate Tender Event” has the meaning set forth in Section 7.01.

“Indebtedness” means, as to any Person, at a particular time, (a) indebtedness for borrowed money or for the deferred purchase price of property or services in respect of which such Person is liable, contingently or otherwise, as obligor, guarantor or otherwise, or in respect of which such Person otherwise assures a creditor against loss and (b) obligations under leases which shall have been or should be, in accordance with GAAP, recorded as capital leases in respect of which obligations such Person is liable, contingently or otherwise, as obligor, guarantor or otherwise, or in respect of which obligations such Person assures a creditor against loss.

“Issuing Agent” means U.S. Bank National Association, successor to Bankers Trust Company, in its capacity as the Subordinated Bond Paying Agent and Subordinated Bond Registrar for the Commercial Paper Notes under the Subordinated Bond Resolution and the Issuing and Paying Agency Agreement, and its successors in such capacity.

“Issuing and Paying Agency Agreement” means the Issuing and Paying Agency Agreement Relating to Utilities System Commercial Paper Notes, Series D, dated as of June 15, 2000, between the City and Bankers Trust Company, as amended and supplemented from time to time in accordance with the terms thereof and hereof.

“Lending Office” means the office of the Bank to which notices of borrowings of Loans hereunder shall be given and to which payments of amounts due hereunder and under the Bank Bond shall be made, which office (and any changes thereto) shall be communicated promptly by the Bank to the City at its address specified in or pursuant to Section 9.01.

“Lien” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset. For the purposes of this Agreement, the City shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such asset.

“Loan” means either a Revolving Credit Loan or the Term Loan, as the case may be.

“Maturity Date” means the earlier of (i) the Quarterly Payment Date immediately preceding the date that is the fourth (4th) anniversary of the Termination Date, or (ii) the date on which a Tender Event shall have occurred and the Bank Bond shall be immediately due and payable pursuant to Section 7.02 hereof; *provided, however*, that upon the occurrence of the Termination Date (as it may be extended) under (and as defined in) the BLB Credit Agreement and subject to the terms of Section 6.11(b)(i), the reference to the fourth (4th) anniversary of the Termination Date in the foregoing clause (i) shall be and be deemed to refer to the fifth (5th) anniversary of the Termination Date.

“Moody’s” means Moody’s Investors Service and its successors and assigns, and if such corporation (i) shall be dissolved or liquidated or (ii) shall no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized statistical rating organization (other than S&P or Fitch) designated by the Bank and approved by the City if such an organization shall exist.

“No-Issuance Instructions” has the meaning set forth in Section 2.01(b).

“Notice of Revolving Credit Borrowing” has the meaning set forth in Section 3.02(a).

“Notice of Term Borrowing” has the meaning set forth in Section 3.02(b).

“Offering Memorandum” means the Offering Memorandum, dated August 28, 2014, relating to the Commercial Paper Notes.

“Participant” has the meaning set forth in Section 9.05(b).

“Patriot Act” shall mean the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Title III of Pub. L. 107-56 (signed into law October 26, 2001).

“Person” means an individual, a corporation, a partnership, an association, a trust, a Governmental Authority or any other entity or organization of whatever nature, including a government or political subdivision or an agency or instrumentality thereof.

“Potential Tender Event” means any condition or event which constitutes a Tender Event or which with the giving of notice or lapse of time or both would, unless cured or waived, become a Tender Event.

“Prime Rate” means, for any day, the fluctuating interest rate per annum most recently announced by the Bank as its “prime rate”, it being understood that such rate shall not necessarily be the best or lowest rate of interest available to the Bank’s best or most preferred large commercial customers. Each change in the Prime Rate shall take effect simultaneously with the corresponding change or changes in the Bank’s prime rate.

“Quarterly Payment Date” means the first Business Day of each January, April, July and October.

“Rating Agency” means Fitch, Moody’s and S&P, in each case, only to the extent such rating agency then provides an investment rating with respect to the Commercial Paper Notes.

“Regulation U” means Regulation U of the Board of Governors of the Federal Reserve System, as in effect from time to time.

“Reoffering Memorandum” means the Reoffering Memorandum of the City, dated June 30, 2014, relating to the City’s Variable Rate Utilities System Revenue Bonds, 2008 Series B.

“Requirement of Law” means as to any Person, the certificate of incorporation and by-laws or other organizational or governing documents of such Person, and any law (including, in the case of the City, the Act), treaty, rule or regulation, or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

“Resolutions” means the Bond Resolution, the Subordinated Bond Resolution and the Fourth Supplemental Subordinated Bond Resolution.

“Revolving Credit Loan” means a Loan made during the Revolving Credit Period for the purpose of paying maturing Commercial Paper Notes.

“Revolving Credit Period” means the period from and including the Effective Date to and including the earliest of (a) the Termination Date, (b) the date on which the Commitment and the Bank’s obligation to make Loans hereunder shall be terminated pursuant to Section 7.01 hereof and (c) the date of the making of a Term Loan.

“S&P” means Standard & Poor’s Ratings Services, a Standard and Poor’s Financial Services LLC business, and its successors and assigns, and if such business (i) shall be dissolved or liquidated or (ii) shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized statistical rating organization (other than Moody’s or Fitch) designated by the Bank and approved by the City if such an organization shall exist.

“Sanctions” means economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by the U.S. government, including those administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the U.S. Department of State.

“Subordinated Bond Resolution” means the Subordinated Utilities System Revenue Bond Resolution adopted by the City on January 26, 1989 authorizing the issuance of the City’s Subordinated Utilities System Revenue Bonds, as heretofore supplemented, amended and restated and as it may be further supplemented and amended from time to time in accordance with the terms thereof and hereof.

“Subordinated Indebtedness Fund” means the fund by that name established pursuant to the Bond Resolution.

“Suspension Event” has the meaning set forth in Section 7.01.

“Tender Event” has the meaning set forth in Section 7.01.

“Term Loan” means a Loan made on or prior to the Termination Date for the purpose of refunding one or more Revolving Credit Loans.

“Termination Date” means the earlier of (i) August 28, 2017, or such later date to which the Revolving Credit Period shall have been extended pursuant to Section 3.01(c), or if any such date is not a Business Day, the next preceding Business Day, or (ii) the date on which all of the following shall have occurred: (A) a Tender Event shall have occurred and be continuing (and shall not have otherwise been waived by the Bank), (B) the Commitment of the Bank shall have terminated in accordance with Section 3.08(b), and (C) the Bank Bond shall be immediately due and payable pursuant to Section 7.02 hereof.

“Trustee” has the meaning ascribed thereto in the Bond Resolution.

**SECTION 1.02 Accounting Terms and Determinations.** Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with generally accepted accounting principles as in effect from time to time (“GAAP”).

**SECTION 1.03 Interpretation.** All words used herein shall be construed to be of such gender or number as the circumstances require. Reference to any document means such document as amended or supplemented from time to time as permitted pursuant to its terms and (if applicable) the terms hereof. Reference herein to any Article or Section shall be deemed

to be a reference to the corresponding Article or Section of this Agreement unless otherwise specified.

## ARTICLE II

### COMMERCIAL PAPER OPERATIONS

#### SECTION 2.01 Issuance of Commercial Paper Notes.

(a) The City has (i) pursuant to the Subordinated Bond Resolution and the Issuing and Paying Agency Agreement, authorized and directed the Issuing Agent to act as its agent in the issuance, authentication, delivery and payment of Commercial Paper Notes and in effecting Loans hereunder and (ii) pursuant to the Subordinated Bond Resolution, provided security for the payment of principal of the Commercial Paper Notes and principal of and interest on the Bank Bond.

(b) Subject to the provisions of this Section 2.01 and of Article IV, unless each of the City and the Issuing Agent are in receipt of instructions ("No-Issuance Instructions") then in effect from the Bank given in accordance with this Section not to issue, authenticate or deliver Commercial Paper Notes because (i) a Potential Tender Event has occurred and is continuing or (ii) a material representation or warranty of the City contained in this Agreement is not true and correct on and as of the date of such No-Issuance Instructions, the City shall have the right from time to time to issue and sell Commercial Paper Notes pursuant to the Subordinated Bond Resolution and the Issuing and Paying Agency Agreement up to the maximum amount permitted to be outstanding at any time by subsection (c) of this Section. Any No-Issuance Instructions given by the Bank to the City and to the Issuing Agent in accordance with this Section 2.01(b) shall specify one or more of the events or conditions described in clauses (i) and (ii) above as being the reason or reasons to cease issuing, authenticating and delivering Commercial Paper Notes. If the Bank shall, as permitted by this Section and as contemplated by the Fourth Supplemental Subordinated Bond Resolution and the Issuing and Paying Agency Agreement, deliver No-Issuance Instructions to the City and the Issuing Agent, the City shall not, and shall cause the Issuing Agent not to, issue, authenticate or deliver any Commercial Paper Notes after the time such No-Issuance Instructions are first received by the Issuing Agent and the City until such time as all previously delivered No-Issuance Instructions have been revoked, except to the extent that such issuance, authentication and delivery is made pursuant to a written agreement among the City, the Issuing Agent and the Dealer to which the Bank has previously consented in writing with respect to agreements for the sale of Commercial Paper Notes concluded by the Dealer prior to the time the Dealer first received notice from the Bank, the Issuing Agent or the City of the giving by the Bank to the City and the Issuing Agent of No-Issuance Instructions pursuant to this subsection. For purposes of this subsection, an agreement for the sale of Commercial Paper Notes shall be deemed concluded when it has become a final agreement in accordance with the customary practice of commercial paper dealers or placement agents in New York City. The City shall not, under any circumstances, so long as any No-Issuance Instructions given hereunder remain in effect, request the Dealer to purchase or sell any Commercial Paper Notes. Concurrently with the giving of any No-Issuance Instructions to the City and the Issuing Agent, the Bank shall give notice thereof to the Dealer and to Moody's and S&P (in each case to the extent such Rating Agency then provides an

investment rating with respect to the Commercial Paper Notes), but the failure of the Bank to do so shall not impair the effectiveness of any such No-Issuance Instructions. Any No-Issuance Instructions given pursuant to this subsection to the City and the Issuing Agent may be revoked by the Bank in writing at any time.

(c) The City agrees that each Commercial Paper Note shall (i) be substantially in the form set forth in Article VII of the Fourth Supplemental Subordinated Bond Resolution and completed in accordance with this Agreement, the Issuing and Paying Agency Agreement and the Subordinated Bond Resolution, (ii) be dated the date of issuance thereof, (iii) be made payable to the order of bearer, (iv) have a stated maturity date (which shall be a Business Day), which shall not be later than the earlier to occur of (A) the 270th day after the date of its issuance and (B) the second Business Day preceding the Termination Date, and (v) be in a principal amount of \$100,000 or any larger integral multiple of \$1,000, which principal amount, when added to the aggregate principal amount of all other Commercial Paper Notes outstanding (after taking into account any Commercial Paper Notes paid or to be paid on such date) or to be issued on such date, will not exceed the aggregate unused amount of the Commitment in effect on such date. Upon the request of the Issuing Agent, the Bank agrees promptly to confirm to the Issuing Agent the aggregate unused amount of the Commitment in effect on the date of such request (which amount shall be determined without regard to any payment of Loans expected to be made on such date with respect to which the Bank has received notice but not the proceeds of such payment). As contemplated by Section 3 of the Issuing and Paying Agency Agreement, all Commercial Paper Notes shall be issued, authenticated and delivered against payment therefor and otherwise in accordance with the terms of this Agreement, the Issuing and Paying Agency Agreement and the Subordinated Bond Resolution.

(d) In the event that the Commercial Paper Notes shall be issued in book-entry form as provided in paragraph 1 of Section 208 of the Fourth Supplemental Subordinated Bond Resolution, (i) any reference in this Agreement to a "Commercial Paper Note" or the "Commercial Paper Notes", as the case may be, shall be deemed to refer to any or all of the separate obligations of the City evidenced by a "Municipal Commercial Paper – TECP Master Note" referred to in said paragraph 1 of Section 208 of the Fourth Supplemental Subordinated Bond Resolution, or such other evidence of the City's obligations with respect to the Commercial Paper Notes as may be provided for in the Letter of Representations, as defined in the Fourth Supplemental Subordinated Bond Resolution (a "Master Note"), (ii) any reference in this Agreement to the issuance, authentication or delivery of a Commercial Paper Note shall be deemed to refer to the incurrence of an additional separate obligation of the City evidenced by a Master Note and (iii) any reference in this Agreement to the payment of a Commercial Paper Note shall be deemed to refer to the payment of a particular separate obligation of the City evidenced by a Master Note.

## ARTICLE III

### THE CREDITS

#### SECTION 3.01 Commitment to Lend.

(a) Revolving Credit Loans. During the Revolving Credit Period, the Bank agrees, on the terms and conditions set forth in this Agreement, to make Revolving Credit Loans to the City pursuant to this Section from time to time in amounts such that the aggregate principal amount of Loans by the Bank at any one time outstanding shall not exceed the amount of the Commitment. Each Loan under this subsection (a) shall be in such aggregate principal amount as shall be needed to pay the principal amount of the Commercial Paper Notes maturing on the date of such Loan. The Bank shall fund each Loan solely with the funds of the Bank. Within the foregoing limits, the City may borrow under this subsection (a), repay or, to the extent permitted by Section 3.09, prepay Revolving Credit Loans and reborrow at any time during the Revolving Credit Period under this subsection (a).

(b) Term Loan. If requested by the City on or prior to the Termination Date, the Bank agrees, on the terms and conditions set forth in this Agreement, to make a Term Loan to the City for the purpose of refunding all or a portion of the Bank's then outstanding Loans; *provided* that the principal amount of such Term Loan shall at no time exceed the Commitment as reduced from time to time pursuant to Sections 3.07 and 3.08. Notwithstanding anything to the contrary contained herein, the City shall be entitled to request a Term Loan only once during the term of this Agreement, and shall not request a Term Loan unless either (a) all outstanding Commercial Paper Notes shall be paid or deemed to have been paid within the meaning of Article VI of the Fourth Supplemental Subordinated Bond Resolution on the date of the making of the Term Loan or (b) a letter of credit, credit agreement or other instrument or agreement replacing this Agreement and the Commitment in its entirety has been entered into between or among the City and one or more financial institutions or other Persons.

(c) Extension of Revolving Credit Period. No later than 180 days prior to Termination Date, the City may, by notice in writing to the Bank, request that the Bank extend the then current Termination Date for a period of such length as the City shall determine, in its sole discretion. If the Bank, in its sole discretion, elects to extend the Termination Date then in effect, it shall deliver to the City, the Issuing Agent and the Dealer within sixty (60) days of receiving said request a written notice of extension (herein referred to as a "Notice of Extension") designating its acceptance of such date. Following the date of delivery of such Notice of Extension by the Bank and after compliance by the City with all terms and conditions thereof, all references in this Agreement to the Termination Date shall be deemed to be references to the date designated as such in the most recent Notice of Extension delivered to the City, the Issuing Agent and the Dealer. Any date to which the Termination Date has been extended in accordance with this Section 3.01(c) may be extended in like manner. Upon any extension of the Termination Date pursuant to this Agreement, the Bank and the City each reserves the right to renegotiate any provision hereof. If the Bank fails to provide the City, the Issuing Agent and the Dealer with a Notice of Extension as provided hereinabove, the Bank shall be deemed not to have consented to the City's request.



Notwithstanding the foregoing, it is understood and agreed that the foregoing provisions are intended for the convenience of the parties only and shall in no respect prohibit the parties from agreeing to extend the Revolving Credit Period pursuant to written agreement under other circumstances or at other times. In the event the Revolving Credit Period is extended under any other circumstances, the Bank shall give prompt written notice thereof to the City, the Issuing Agent and the Dealer.

**SECTION 3.02    Method of Borrowing.**

(a) In the case of any Revolving Credit Loan, the Issuing Agent, on behalf of the City, shall give the Bank irrevocable telephonic notice, promptly confirmed by telecopy in the form of Exhibit A hereto (a “Notice of Revolving Credit Borrowing”), not later than 1:00 P.M. (New York City time) on the date of such Loan, specifying:

(i) the date of such Revolving Credit Loan, which shall be the Business Day on which such Notice is given, and

(ii) the aggregate amount of such Revolving Credit Loan (which (1) shall not be less than \$100,000, and (2) shall not exceed the aggregate principal amount of the Commercial Paper Notes maturing on the date of such Loan and which have not been and will not be paid from the proceeds of sale of other Commercial Paper Notes on such date or from other funds on deposit in the Series D CP Note Payment Account on such date).

(b) In the case of a Term Loan, the City shall give the Bank irrevocable telephonic notice, promptly confirmed by telecopy in the form of Exhibit B hereto (a “Notice of Term Borrowing”), not later than 1:00 P.M. (New York City time) on the second (2nd) Business Day before such Loan, specifying:

(i) the date of the Term Loan, and

(ii) the amount of the Term Loan (which shall not exceed the aggregate principal amount of the outstanding Revolving Credit Loans).

(c) Not later than 3:00 P.M. (New York City time) on the date of each Loan, the Bank shall (except as provided in subsection (d) of this Section) make available such Loan, in Federal or other immediately available funds, unless the Bank determines that any applicable condition specified in Article IV has not been satisfied.

(d) On or prior to the Termination Date, if the City shall request the making of a Term Loan, the principal amount of the Term Loan shall be equal to the aggregate of the principal amounts of all Revolving Credit Loans outstanding on the date of the making of the Term Loan, less any repayments thereof made or to be made by the City on the date of the making of the Term Loan. On the date of the making of the Term Loan, the Bank need not advance any moneys with respect to such Loan, but the Revolving Credit Loans outstanding on such date shall be deemed to be repaid from the proceeds of the Term Loan.

### **SECTION 3.03    Bank Bond.**

(a)     The Loans shall be evidenced by a single Bank Bond payable to the order of the Bank. The Bank Bond shall have a stated maximum principal amount equal to the amount of the Commitment hereunder; *provided* that the principal amount outstanding with respect to the Bank Bond at any time shall equal the amount borrowed by the City hereunder, less any prior repayments of the principal thereof.

(b)     The Bank Bond shall be in substantially the form set forth in Article VIII of the Fourth Supplemental Subordinated Bond Resolution.

(c)     The Bank shall record the date, amount, type and maturity of each Loan made by it and the date and amount of each payment of principal made by the City with respect thereto, and prior to any transfer of the Bank Bond shall endorse on the schedule forming a part thereof appropriate notations to evidence the foregoing information with respect to each such Loan then outstanding (which notations shall, at the request of the City, be submitted by the Bank to the City for its review prior to any such transfer of the Bank Bond); *provided* that the failure of the Bank to make any such recordation or endorsement or to submit any such notations to the City shall not affect the obligations of the City hereunder or under the Bank Bond. The Bank is hereby irrevocably authorized by the City so to endorse the Bank Bond and to attach to and make a part of the Bank Bond a continuation of any such schedule as and when required.

**SECTION 3.04    Maturity of Loans.**     Each Revolving Credit Loan shall mature, and the principal amount thereof shall be due and payable, on the earlier of (a) the Termination Date, as the same may be extended from time to time in accordance with Section 3.01(c) hereof and (b) the date of the making of the Term Loan. The Term Loan shall mature no later than the Maturity Date, and the principal amount thereof shall be repaid, if not otherwise required to be repaid sooner in accordance with the terms of this Agreement, in equal semi-annual installments, commencing on the second (2nd) Quarterly Payment Date following the date of the making of the Term Loan.

### **SECTION 3.05    Interest Rates.**

(a)     Interest on the outstanding principal amount of a Loan shall accrue (beginning on the date the Loan is made) at the Bank Rate in effect from time to time while such Loan is outstanding. The interest rate on any such Loan shall change each time the Bank Rate shall change. Interest on any such Loan shall be payable on the first Business Day of each calendar month, commencing on the first month immediately following the date the Loan is made, on the date of any principal payment with respect to such Loan and on the first to occur of the Termination Date and the Maturity Date.

(b)     The Bank shall determine each interest rate applicable to the Loans hereunder. The Bank shall give prompt notice to the City by telecopy of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error.

(c)     Except as otherwise provided in clauses (i) and (ii) below, no provision of this Agreement or the Bank Bond shall require the payment or permit the collection of interest in excess of the maximum rate permitted by applicable law.

(i) If the amount of interest payable on any interest payment date in respect of the preceding interest computation period (without giving effect to any maximum rate permitted by law) would exceed the amount of interest computed in respect of such period at the maximum rate of interest from time to time permitted (after taking into account all consideration which constitutes interest) by applicable law (such maximum rate being the "Maximum Permissible Rate"), the amount of interest payable to the Bank on such date in respect of such period shall be computed at the Maximum Permissible Rate.

(ii) If at any time and from time to time (A) the amount of interest payable to the Bank on any interest payment date shall be computed at the Maximum Permissible Rate pursuant to the preceding paragraph (i) and (B) in respect of any subsequent interest computation period the amount of interest otherwise payable to the Bank would be less than the amount of interest payable to the Bank computed at the Maximum Permissible Rate, then the amount of interest payable to the Bank in respect of such subsequent interest computation period shall continue to be computed at the Maximum Permissible Rate until the total amount of interest paid to the Bank shall equal the total amount of interest which would have been payable to the Bank if the total amount of interest had been computed without giving effect to the maximum rate permitted by law. If and to the extent permitted by applicable law, on the first to occur of the Termination Date and the Maturity Date, the City shall pay to the Bank a fee equal to the amount of accrued and unpaid interest as a result of the provisions of this Section 3.05(c).

**SECTION 3.06 Fees.** Reference is hereby made to that certain letter dated August 28, 2014 (the "Fee Letter"), between the Bank and the City (as amended or supplemented from time to time) regarding the agreement as to certain fees payable by the City to the Bank (the "Fees"). Any reference in this Agreement or in any other document to fees and/or other amounts payable under this Agreement shall include without limitation all fees and other amounts payable pursuant to the aforementioned Fee Letter concerning Fees and any reference to this Agreement shall be deemed to include reference to said Fee Letter.

**SECTION 3.07 Optional Termination or Reduction of Commitment.** During the Revolving Credit Period, subject to terms of the Fee Letter, the City may, upon five (5) Business Days' notice to the Bank, (i) terminate the Commitment and the Bank's obligation to make Loans hereunder at any time, if (A) no Loans or Commercial Paper Notes are outstanding at such time, or (B) a letter of credit, credit agreement or other instrument or agreement replacing this Agreement, the Bank Bond and the Commitment in its entirety has been entered into between or among the City and one or more financial institutions or other Persons and all amounts payable to the Bank hereunder and under the Bank Bond have been paid in full at such time, or (ii) reduce from time to time by an amount of \$1,000,000 or any larger integral multiple thereof, the amount of the Commitment in excess of the sum of (A) the aggregate outstanding principal amount of the Loans and (B) the aggregate principal amount of all outstanding Commercial Paper Notes. For purposes of the preceding sentence, a Commercial Paper Note shall be deemed not to be outstanding if funds sufficient to pay the principal amount of such Commercial Paper Note at maturity have been deposited with the Issuing Agent pursuant

to the Fourth Supplemental Subordinated Bond Resolution. Promptly upon delivery of any such notice by the City, the City shall notify the Issuing Agent and the Dealer of the contents thereof.

**SECTION 3.08    Mandatory Termination of Commitment.**

(a)    The Commitment and the Bank's obligation to make Loans hereunder shall terminate on the Termination Date, and any Revolving Credit Loans then outstanding (together with accrued interest thereon) shall be due and payable on such date, subject to the right of the City to request a Term Loan on such date.

(b)    If at any time a Tender Event shall have occurred and be continuing, the Bank may deliver a notice to that effect to the City, the Issuing Agent and the Dealer, and the Commitment and the Bank's obligation to make Loans hereunder shall terminate effective at the close of business on the latest maturity date of the Commercial Paper Notes then outstanding and not issued or delivered in violation of Section 2.01(b) or, if a letter of credit, credit agreement or other instrument or agreement replacing this Agreement and the Commitment in its entirety has been entered into between or among the City and one or more financial institutions or other Persons, on the effective date of such letter of credit, credit agreement or other instrument or agreement replacing this Agreement and the Commitment; *provided, however*, that all amounts payable to the Bank hereunder and under the Bank Bond shall have been paid in full at such time.

**SECTION 3.09    Optional Prepayments.**    The City may, at any time and from time to time, by written notice to the Bank by 1:00 P.M. (New York City time) on any Business Day, prepay any Loan in whole or in part by paying the principal amount to be prepaid by 3:00 P.M. (New York City time) on such Business Day.

**SECTION 3.10    General Provisions as to Payments.**

(a)    The City shall make each payment of principal of, and interest on, the Loans and of fees hereunder not later than 3:00 P.M. (New York City time) on the date when due, in Federal or other immediately available funds, to the Bank at its address specified in or pursuant to Section 9.01; *provided* that payment of principal of, and interest on, the Loans shall also be payable from amounts on deposit in the Series D CP Note Payment Account as provided in Article IV of the Fourth Supplemental Subordinated Bond Resolution, and any such payments to be made from amounts on deposit in the Series D CP Note Payment Account shall be made by the Issuing Agent (on behalf of the City) not later than 3:00 P.M. (New York City time) on the date when due, in Federal or other immediately available funds, to the Bank at its address specified in or pursuant to Section 9.01. Whenever any payment of principal of, or interest on, the Loans or of fees shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b)    If and to the extent permitted by applicable law, any principal of or interest on the Loans, under this Agreement or in connection with the Bank Bond that is not paid when due shall bear interest until paid at the Default Rate.

**SECTION 3.11 Computation of Interest and Fees.** Interest hereunder shall be computed on the basis of a year of 365 or 366 days, as applicable, and paid for the actual number of days elapsed (including the first day but excluding the last day). Fees pursuant to Section 3.06 shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

## **ARTICLE IV**

### **CONDITIONS**

**SECTION 4.01 Effectiveness.** This Agreement shall become effective on the date on which each of the following conditions shall have been satisfied (or waived in accordance with Section 9.04), or such later date as shall have been agreed upon by the City and the Bank:

(a) receipt by the City and the Bank of counterparts hereof and of the Fee Letter signed by each of the parties hereto (or, in the case of any party as to which an executed counterpart shall not have been received, receipt by such party in form satisfactory to it of written confirmation by telecopier from the other party of execution of a counterpart hereof and thereof by such other party);

(b) receipt by the Bank of its out-of pocket expenses and the fees and disbursements of its counsel in connection with the preparation of this Agreement and the Financing Documents, as provided in Section 9.03(a)(i);

(c) receipt by the Bank of the duly executed Bank Bond dated on or before the Effective Date complying with the provisions of Section 3.03;

(d) receipt by the Bank of (i) an opinion of the Office of the City Attorney of the City, substantially in the form of Exhibit D-1 hereto and covering such additional matters relating to the transactions contemplated hereby or by the Financing Documents as the Bank may reasonably request, (ii) an opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel for the City, substantially in the form of Exhibit D-2 hereto and covering such additional matters relating to the transactions contemplated hereby or by the Financing Documents as the Bank may reasonably request;

(e) receipt by the City of an opinion of counsel for the Bank, substantially in the form of Exhibit E hereto and covering such additional matters relating to the transactions contemplated hereby or by the Financing Documents as the City may reasonably request;

(f) receipt by the Bank of copies of the Issuing and Paying Agency Agreement and the Dealer Agreement, as executed by the parties thereto;

(g) receipt by the Bank of a certified copy of each Resolution, including all supplements thereto making any amendment thereof (each as in effect on the Effective Date), and a certificate of the Clerk of the Commission of

the City certifying that each Resolution is in full force and effect and that there has been no other amendment or modification to any provision of any such Resolution;

(h) receipt by the Bank of a certificate of an Authorized Officer of the City certifying that (i) each of the City's representations and warranties contained (or incorporated by reference) herein is true and correct on and as of the Effective Date, (ii) no Potential Tender Event has occurred and is continuing, (iii) except as disclosed in the Reoffering Memorandum or as otherwise disclosed in writing to the Bank, subsequent to the date of the City's most recent audited financial statements relating to the System, there has not been any material adverse change in the business, assets, financial position or results of operations of the City that are payable from the Trust Estate, and (iv) except as disclosed in the Reoffering Memorandum or as otherwise disclosed in writing to the Bank, subsequent to the date of the City's most recent audited financial statements relating to the System, the City has not entered into any transaction or incurred any debt or other liability (actual or contingent) which could reasonably be expected to be material and adverse to the condition (financial or otherwise), operations or prospects of the System, or materially impair or could reasonably be expected to materially impair the ability of the City to perform its obligations under this Agreement, the Fee Letter, the Commercial Paper Notes or the other Financing Documents;

(i) receipt by the Bank of a certificate of the Clerk of the Commission of the City certifying as to the authorization and signatures of the officers of the City who are authorized to execute and deliver this Agreement, the Fee Letter and the Bank Bond;

(j) receipt by the Bank of a copy of the Offering Memorandum;

(k) receipt by the Bank of written confirmation that the Commercial Paper Notes have been rated "P-1" by Moody's and "A-1+" by S&P;

(l) receipt by the Bank of written evidence that the Bank Bond CUSIP number has been obtained and received from Standard & Poor's CUSIP Service Bureau;

(m) receipt by the Bank of written confirmation that the Bank Bond shall have received at least one unenhanced long-term credit rating from any of the Rating Agencies;

(n) the Bank shall have determined, in its sole discretion, that the City meets the Bank's credit requirements and that no legal change has occurred which would prevent the City from fulfilling its obligations under this Agreement, the Fee Letter, the Commercial Paper Note or any other Financing Document; and

(o) receipt by the Bank of all opinions, certificates and other documents it may reasonably request relating to the existence of the City, the authority for and the validity of this Agreement, the Bank Bond and each other Financing Document, and any other matters relevant hereto or thereto, all in form and substance satisfactory to the Bank;

The Bank shall promptly notify the City, the Issuing Agent and the Dealer of the Effective Date, and such notice shall be conclusive and binding on both parties hereto.

**SECTION 4.02 Revolving Credit Borrowings.** The obligation of the Bank to make a Revolving Credit Loan is subject to the satisfaction of the following conditions:

(a) receipt by the Bank of a Notice of Revolving Credit Borrowing as required by Section 3.02;

(b) the fact that, immediately after such Loan, the aggregate outstanding principal amount of the Loans will not exceed the amount of the Commitment and that none of the proceeds of such Loan shall be used to pay any Commercial Paper Notes issued or delivered in violation of Section 2.01(b); and

(c) no Immediate Tender Event or Suspension Event shall have occurred and be continuing.

Each Loan hereunder shall be deemed to be a representation and warranty by the City on the date of such Loan as to the facts specified in clauses (b) and (c) of this Section.

**SECTION 4.03 Term Borrowing.** The obligation of the Bank to make a Term Loan is subject to the satisfaction of the following conditions:

(a) receipt by the Bank of a Notice of Term Borrowing as required by Section 3.02;

(b) the fact that, immediately after such Loan, the aggregate outstanding principal amount of the Loans will not exceed the amount of the Commitment;

(c) no Potential Tender Event of the type described in Section 7.01 shall have occurred and be continuing; and

(d) each of the City's representations and warranties contained in Article V shall be true and correct on and as of the date of such Term Loan.

Such Term Loan shall be deemed to be a representation and warranty by the City on the date of such Loan as to the facts specified in clauses (b), (c) and (d) of this Section.

## ARTICLE V

### REPRESENTATIONS AND WARRANTIES

The City represents and warrants that:

**SECTION 5.01 Financial Condition.** The statement of net position of Gainesville Regional Utilities at September 30, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, reported on by Ernst & Young LLP, heretofore delivered to the Bank, are complete and correct and present fairly the financial condition of Gainesville Regional Utilities as of such date, and the results of its operations and changes in financial position for the year then ended. All such financial statements, including the related schedules and notes thereto, have been prepared in accordance with GAAP applied consistently throughout the periods involved (except as approved by such accountants and as disclosed therein).

**SECTION 5.02 No Change.** Except as disclosed in the Reoffering Memorandum or as otherwise disclosed in writing to the Bank, since September 30, 2013, there has been no material change in the business, operations, assets or financial or other condition of the System which would adversely affect the ability of the City to perform its obligations under the Resolutions, this Agreement, the Fee Letter, the Commercial Paper Notes or the Bank Bond.

**SECTION 5.03 Organization; Compliance with Law.** The City (a) is a municipal corporation duly organized and validly existing under the laws of the State of Florida, (b) has all requisite power and authority and the legal right to own and operate its property and to conduct its business, including without limitation, the System, and (c) is in compliance with all Requirements of Law except to the extent that the failure to comply therewith would not, in the aggregate, have a material adverse effect on the business, operations, property or financial or other condition of the System, and would not materially adversely affect the ability of the City to perform its obligations under the Resolutions, this Agreement, the Fee Letter, the Commercial Paper Notes and the Bank Bond.

**SECTION 5.04 Power; Authorization; Enforceable Obligations.** The City has all requisite power and authority and the legal right to adopt the Resolutions, to make, deliver and perform this Agreement, the Bank Bond and the other Financing Documents and to borrow hereunder and to secure the payment of its obligations in respect of such borrowings by the pledge of the Subordinated Indebtedness Fund made in the Subordinated Bond Resolution, and has taken all necessary action to authorize the borrowings and such pledge on the terms and conditions of this Agreement, the Bank Bond and the Resolutions, and to authorize the execution, delivery and performance of this Agreement, the Commercial Paper Notes and the other Financing Documents. No consent or authorization of, filing with, or other act by or in respect of any Person, is required in connection with the borrowings hereunder or with the execution, delivery, performance, validity or enforceability of this Agreement, the Bank Bond or the other Financing Documents. This Agreement, the Bank Bond and the other Financing Documents have been duly executed and delivered on behalf of the City, and each of this Agreement and the other Financing Documents constitute a legal, valid and binding obligation of the City enforceable against the City in accordance with its terms, subject to the effect of, and



restrictions and limitations imposed by or resulting from, bankruptcy, insolvency, debt adjustment, moratorium, reorganization or other similar laws affecting creditors' rights and judicial discretion and the valid exercise of the sovereign police powers of the State of Florida and the constitutional power of the United States of America. The Resolutions have been duly adopted and are in full force and effect.

**SECTION 5.05 No Legal Bar.** The execution, delivery and performance of this Agreement, the Bank Bond and the other Financing Documents, the borrowings hereunder and the use of the proceeds thereof will not violate any Requirement of Law or any Contractual Obligation of the City, and, except for the pledge of the Subordinated Indebtedness Fund effected by the Subordinated Bond Resolution, will not result in, or require, the creation or imposition of any lien or encumbrance on or security interest in any of the properties or Revenues of the System pursuant to any Requirement of Law or Contractual Obligation. The issuance of the Commercial Paper Notes and the Bank Bond, and the execution, delivery and performance by the City of this Agreement and the other Financing Documents in accordance with their respective terms and conditions do not and will not conflict with, violate or cause a default, or with the passage of time or the giving of notice or both would cause a default, under any bond, note or other evidence of indebtedness or mortgage, indenture, contract or other agreement to which the City is a party or that is binding upon it or any of its properties relating to the System.

**SECTION 5.06 No Material Litigation.** Except as disclosed in the Reoffering Memorandum or as otherwise disclosed in writing to the Bank, no litigation or proceeding or, to the knowledge of the City, investigation of or before any arbitrator or Governmental Authority is pending or, to the knowledge of the City, threatened by or against the City or against any of its properties or revenues (a) with respect to any of the Resolutions, this Agreement or the Bank Bond or any of the transactions contemplated thereby or hereby, or (b) which would have a material adverse effect on the business, operations, property or financial or other condition of the System or the ability of the City to perform its obligations under the Resolutions, this Agreement, the Bank Bond or any other Financing Document or in respect of any other Indebtedness incurred to finance or otherwise in respect of the System or secured by Revenues or other assets of the System.

**SECTION 5.07 No Default.** The City is not in default under or with respect to the Resolutions, or with respect to any Contractual Obligation in any respect which would be materially adverse to the business, operations, property or financial or other condition of the System or which would materially and adversely affect the ability of the City to perform its obligations under the Resolutions, this Agreement, the Bank Bond or any other Financing Document or in respect of any other Indebtedness incurred to finance or otherwise in respect of the System or secured by any Revenues or other assets of the System. No Potential Tender Event has occurred and is continuing.

**SECTION 5.08 Security, Etc.** The obligations of the City in respect of the Bank Bond will be secured ratably with the Commercial Paper Notes and with other Subordinated Bonds or Parity Subordinated Indebtedness heretofore and hereafter issued by a lien on and pledge of the Subordinated Indebtedness Fund, which lien and pledge is junior and subordinate in respect of any part thereof which is included in the Trust Estate, as such term is

defined in the Bond Resolution, to the lien on and pledge of such Trust Estate created by the Bond Resolution in favor of the holders of the Bonds, but is superior to all other liens, pledges, charges, security interests and other encumbrances of whatever nature on the Subordinated Indebtedness Fund. The obligations of the City in respect of the Bank Bond will be "Subordinated Indebtedness" within the meaning of the Bond Resolution.

**SECTION 5.09 Federal Reserve Regulations.** No part of the proceeds of any Loan will be used for the purpose, whether immediate, incidental or ultimate, to purchase or carry any margin stock (within the meaning of Regulation U) or for any other purpose which would violate any of the regulations of the Board of Governors of the Federal Reserve System.

**SECTION 5.10 ERISA Matters.** The City does not maintain any employee benefit plan that is subject to Title I or Title IV of ERISA.

**SECTION 5.11 Legislation.** No legislation has been enacted by the City or, to the knowledge of the City (without undertaking any duty of inquiry), by the State of Florida which in any way materially adversely affects or which prohibits (i) the issuance and delivery of the Commercial Paper Notes, (ii) the enforceability of the Resolutions, (iii) the execution and delivery of this Agreement or any of the Financing Documents to which the City is a party, (iv) the creation, organization or existence of the City or the titles to office of any officers thereof, or (v) the power of the City to carry out its obligations under the Act, this Agreement or any of the Financing Documents to which the City is a party.

**SECTION 5.12 Sovereign Immunity.** The defense of sovereign immunity is not available to the City in any proceedings by the Bank to enforce any of the provisions of this Agreement, except to the extent that any such proceeding seeks enforcement based on tort or similar claim and in such case such defense is available only to the extent set forth under Florida Statutes Section 768.28 or other similarly applicable provision of law.

**SECTION 5.13 Reoffering Memorandum.** The Reoffering Memorandum did not, as of its date, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements contained therein, in the light of the circumstances under which they were made, not misleading.

**SECTION 5.14 Full Disclosure.** To the best of the City's knowledge, any written information, reports and other papers and data prepared by the City and furnished to the Bank by the City pursuant to this Agreement were, at the time the same were so furnished, complete and correct in all material respects to the extent necessary to give the Bank a true and accurate knowledge of the subject matter thereof. The City has disclosed to the Bank in writing any and all facts known to it which materially and adversely affect, or may (to the extent that the City can now reasonably foresee) materially and adversely affect, the business, operations or financial condition of the System or the ability of the City to perform its obligations under this Agreement, the Fee Letter or any other Financing Document.

**SECTION 5.15 Incorporation by Reference.** The City is in compliance with all representations and warranties set forth in the Financing Documents to which it is a

party, which are hereby made to, and for the benefit of, the Bank and incorporated herein by this reference, as if set forth herein in full (together with the related definitions).

**SECTION 5.16      Environmental Laws.**      The System and any of the property of the City that constitutes a part of the System is in material compliance with all applicable Environmental Laws and has not become subject to any Environmental Liability, nor does the City know of any basis for such Environmental Liability.

**SECTION 5.17      Rate Increases.**      An increase by the City of rates, fees, rentals or other charges for use of the product, services and facilities of the System requires no action or approval by or in respect of any Governmental Authority other than the City Commission of the City.

**SECTION 5.18      Anti-Corruption Laws and Sanctions.**      The City and its elected officials, officers and employees and to the knowledge of the City, its agents, are in compliance with Anti-Corruption Laws and applicable Sanctions in all material respects. No use of proceeds of the Loans or any other transaction contemplated by this Agreement will violate Anti-Corruption Laws or applicable Sanctions.

## **ARTICLE VI**

### **COVENANTS**

The City agrees that, so long as the Bank has any Commitment hereunder or any amount payable under the Bank Bond remains unpaid, the City:

**SECTION 6.01      Resolutions.**      Shall perform each of its covenants set forth in the Subordinated Bond Resolution and the Bond Resolution (as the same may be amended from time to time after the date of this Agreement) at the time such performance is required thereby (and giving effect to any applicable grace periods set forth therein). For the purposes of this Agreement, each reference to the Trustee in the Bond Resolution shall be deemed to be a reference to the Bank and each reference therein to the Bonds shall be deemed to be a reference to the Bank Bond.

**SECTION 6.02      Financial and Other Information.**      Shall furnish to the Bank (a) within 150 days after the close of each fiscal year of the City, a statement of net position of Gainesville Regional Utilities as at the end of such year, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, accompanied by an unqualified opinion of an independent certified public accounting firm of recognized standing stating that they have been prepared in accordance with GAAP consistently applied, together with a certificate of an Authorized Officer of the City stating whether any Potential Tender Event exists on the date of such certificate and, if any Potential Tender Event then exists, setting forth the details thereof and the actions which the City is taking or proposes to take with respect thereto; (b) within 60 days after the close of the first three quarters of each fiscal year of the City, a statement of net position of Gainesville Regional Utilities as at the end of such quarter, and the related statements of revenues, expenses, and changes in net position, and cash flows for the three months then ended, together with a certificate of an Authorized Officer of the City stating

whether any Potential Tender Event exists on the date of such certificate and, if any Potential Tender Event then exists, setting forth the details thereof and the action which the City is taking or proposes to take with respect thereto; and (c) promptly upon request, such financial and other information as the Bank may from time to time reasonably request.

**SECTION 6.03 Inspection of Property; Discussions.** Shall permit representatives of the Bank to visit and inspect any of the properties of the System and examine and make abstracts from any of its books and records (except to the extent such books and records are subject to legal privilege) at any reasonable time and as often as may reasonably be desired, and to discuss the business, operations, properties and financial and other condition of the System with officers and employees of the System and with its independent certified public accountants.

**SECTION 6.04 Notices.** Shall promptly give notice to the Bank:

- (a) of the occurrence of any Potential Tender Event;
- (b) of any (i) default or event of default under any Contractual Obligation of or relating to the System or (ii) litigation, investigation or proceeding which may exist at any time between the City and any other Person, which in either case would have a material adverse effect on the business, operations, property or financial or other condition of the System or on the ability of the City to perform its obligations under this Agreement, the Fee Letter or any other Financing Document;
- (c) of any litigation, proceeding or Environmental Liability affecting the System in which the amount involved is \$10,000,000 or more and not covered by insurance or in which injunctive or similar relief is sought;
- (d) of any change in the ratings on the Bonds or any Subordinated Indebtedness assigned by Moody's or S&P; and
- (e) of the execution and delivery or adoption, as applicable, thereof, of any amendments of or supplements to any of the Financing Documents or the Offering Memorandum, together with copies thereof (but exclusive of those amendments or supplements for which the Bank's consent is otherwise required pursuant to the terms of this Agreement).

Each notice pursuant to paragraph (a), (b) or (c) of this subsection shall be accompanied by a statement of an Authorized Officer of the City setting forth details of the occurrence referred to therein and stating what action the City proposes to take with respect thereto.

**SECTION 6.05 Resolutions, Etc.** Shall not modify, amend or supplement the Subordinated Bond Resolution without the prior written consent of the Bank or modify, amend or supplement or agree to modify, amend or supplement, any other Financing Document in any respect which is adverse to the interests of the Bank or is inconsistent with this Agreement without the prior written consent of the Bank; *provided, however*, that (a) in the case of the

Subordinated Bond Resolution, no such consent shall be required in connection with any amendment thereto permitted under the provisions of Section 10.01 or 10.02 thereof and (b) in the case of the Bond Resolution, no such consent shall be required in connection with any amendment thereto permitted under the provisions of Section 1001 or 1002 thereof. The City shall promptly (and in any event within 30 days) furnish to the Bank copies, certified by the Clerk of the Commission of the City as being in full force and effect, of any modification of, amendment of or supplement to any of the Resolutions as in effect on the date of the delivery of the certified Resolutions referred to in subsection 4.01(g); *provided, however*, that (a) in the case of the Subordinated Bond Resolution, the City shall not be required to furnish any such modification, amendment or supplement permitted under the provisions of Section 10.01 or 10.02 thereof, other than such a modification, amendment or supplement that amends or modifies the provisions of the Fourth Supplemental Subordinated Bond Resolution and (b) in the case of the Bond Resolution, the City shall not be required to furnish any such modification, amendment or supplement permitted under the provisions of Section 1001 or 1002 thereof.

**SECTION 6.06 Payment of Bank Bond.** Shall pay or cause to be paid to the Trustee for deposit in the Subordinated Indebtedness Fund an amount which, together with other amounts then on deposit in such Subordinated Indebtedness Fund and the Series D CP Note Payment Account, will be sufficient and available to make payment of the principal and interest on Bank Bond on the dates the same shall become due and payable.

**SECTION 6.07 Further Assurance.** Shall, at any and at all times, as far as it may be authorized by law, comply with any reasonable request of the Bank 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, moneys, securities and funds pledged or assigned in the Subordinated Bond Resolution or intended so to be, or which the City may become bound to pledge or assign.

**SECTION 6.08 Power to Fix and Collect Rates, Fees and Charges.** Shall, as long as the Bank Bond is outstanding or other amounts are owing to the Bank hereunder, maintain 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 6.09 Replacement of this Agreement.** In the event that either (a) the Bank shall determine (or be deemed to have determined) not to extend the Revolving Credit Period upon request of the City, (b) the City shall have failed to timely request that the Bank extend the Revolving Credit Period or (c) the Commitment and the Bank's obligation to make Loans hereunder shall have been terminated by the City prior to the Termination Date or shall have terminated as provided in Section 7.01, shall either (i) obtain a letter of credit, credit agreement or other instrument or agreement replacing this Agreement and the Commitment in its entirety, or (ii) refinance in full or otherwise defease in full the Commercial Paper Notes, in either case, as soon as practicable following the occurrence of either such event. The City agrees that any replacement letter of credit, credit agreement or other instrument or agreement will require, as a condition to its effectiveness, that the issuer or provider thereof, as the case may be, will provide funds, on the date such letter of credit, credit agreement or other instrument or

agreement becomes effective, which, together with any available funds of the City, shall be sufficient to pay in full all Loans outstanding on such date, plus accrued interest thereon, together with all other amounts due and payable hereunder.

**SECTION 6.10 Sovereign Immunity.** To the extent permitted by applicable law, shall not assert the defense of sovereign immunity in connection with any suit or claim brought for the purposed of adjudicating its duties and obligations under this Agreement, the Fee Letter or any Bank Bond or for damages for a breach of any of the foregoing.

**SECTION 6.11 Incorporation by Reference.** (a) Shall comply with all its covenants and agreements set forth in the other Financing Documents, which covenants and agreements are hereby incorporated herein by reference and, notwithstanding anything to the contrary set forth herein or in such other Financing Documents, shall be for the benefit of, and run directly to, the Bank, and the Bank shall be entitled to rely upon all such covenants and agreements as though all such covenants and agreements were set forth herein in full or otherwise addressed directly to the Bank. All such covenants and agreements shall be unaffected by any amendment, modification or waiver after the date hereof of any such other Financing Document, unless amended, modified or waived in accordance with Section 6.05 hereof.

(b) (i) In the event that the City shall, directly or indirectly, enter into, or otherwise consent to any amendment, supplement or other modification of, any credit agreement, note purchase agreement, reimbursement agreement or other agreement or instrument under which, directly or indirectly, any Person or Persons undertake to make or provide funds to make payment of, or to purchase or provide credit enhancement for, any Indebtedness which is secured on a basis senior to, or on parity with, the Commercial Paper Notes (each, an “Other Debt Document”), and which includes financial covenants or other more favorable remedies, including without limitation, a more favorable bank bond amortization period or more accelerated schedule of bank bond amortization payments or any other rights to otherwise accelerate (but expressly excluding, for purposes of clarification with respect to this Section, any commitment fee or termination fee provisions agreed to by the City with any other Person), which are more favorable than the provisions contained in this Agreement (all of the foregoing provisions are collectively referred to herein as the “Incorporated Provisions”), this Agreement shall be deemed to be amended to include such Incorporated Provisions, together with related defined terms contained in such sources, for the benefit of the Bank. The City will perform and comply with the Incorporated Provisions incorporated herein. The City further covenants to promptly execute and deliver at its expense an amendment to this Agreement in form and substance satisfactory to the Bank evidencing the amendment of this Agreement to include such Incorporated Provisions, provided that the execution and delivery of such amendment shall not be a precondition to the effectiveness of this Agreement being deemed to be amended as provided for in this Section, but shall merely be for the convenience of the parties hereto. Said Incorporated Provisions, so long as the Other Debt Document or Documents from which it or they are derived has not been terminated, or has not expired, will remain in full force and effect for all purposes of this Agreement; *provided*, that (i) any amendment, waiver or other modification of an Incorporated Provision, if effected in accordance with the Other Debt Document from which it is derived (excluding any amendment, waiver or other modification effected subsequent to the occurrence of a “default” or “event of default” under said Other Debt Document or hereunder), will be effective to amend, waive or modify such Incorporated

Provision as set forth in this Agreement only after the City provides written notice to the Bank of such amendment, waiver or modification, in which case, the City shall promptly execute and deliver at its expense an amendment to this Agreement in form and substance satisfactory to the Bank evidencing the amendment, waiver or modification of this Agreement to amend, waive or modify such Incorporated Provisions; and (ii) in no event will any such amendment, waiver or modification of an Incorporated Provision, if effected in accordance with the Other Debt Document from which it is derived (excluding any amendment, waiver or other modification effected subsequent to the occurrence of a “default” or “event of default” under said Other Debt Document or hereunder) result in an amortization period and/or related schedule of amortization payments with respect to Bank Bonds that is less favorable to the Bank than the provisions originally set forth in this Agreement. Notwithstanding any other provision of this Section 6.11, however, in the event that the Bank Bond held by the Bank actually is amortizing pursuant to a more favorable schedule of amortization payments set forth in such Other Debt Document or Documents, then regardless of the effective status of such Other Debt Document or Documents or any amendment, waiver or modification thereof by any other Person, the Bank Bond held by the Bank shall remain subject to such more favorable schedule of amortization payments, and such more favorable Incorporated Provisions shall remain in effect hereunder, unless the Bank otherwise consents in writing, unless any such amendment or modification is more favorable to the Bank and, in such case, the more favorable terms shall be subject to incorporation by reference as otherwise described in this Section.

(ii) Notwithstanding the foregoing, no (A) additional or more restrictive events of default under an Other Debt Document, the remedy for which is an immediate termination or suspension of the obligations of the related lender thereunder or (B) additional conditions precedent to purchase or funding under an Other Debt Document shall be incorporated into this Agreement pursuant to the terms of Section 6.11(b)(i) without written confirmation from each of the Rating Agencies then rating the Commercial Paper Notes that such incorporation will not result in a suspension, lowering or withdrawal of the then current short-term credit ratings on the Commercial Paper Notes.

**SECTION 6.12 Maintenance of Ratings.** Shall at all times maintain long-term credit ratings assigned to the Bonds at no less than “A3” or “A-”, as applicable, from not less than two Rating Agencies.

**SECTION 6.13 Compliance with Laws.** Shall comply in all material respects, within the time period, if any, given for such compliance by the relevant Governmental Authority, with all applicable laws, rules, regulations and requirements of Governmental Authorities (including, without limitation, Environmental Laws), except where the necessity of compliance therewith is contested in good faith by appropriate proceedings.

**SECTION 6.14 Appointment of Successors and Assigns.** So long as this Agreement is in effect, the City will not permit the appointment of a successor Issuing Agent or Dealer unless the City has obtained the prior written consent of the Bank thereto, which consent shall not be unreasonably withheld or delayed. The City will cause a Dealer acceptable to the Bank to be in place at all times while this Agreement is in effect or any Commercial Paper Notes are outstanding.

**SECTION 6.15    Anti-Corruption Laws and Sanctions.**    Shall not request, nor cause any other Person to request, any Loan, and the City shall not use, and shall not permit its elected officials, officers, employees and agents to use, the proceeds of any such Loan (A) in furtherance of an offer, payment, promise to pay, or authorization of the payment or giving of money, or anything else of value, to any Person in violation of any Anti-Corruption Laws, or (B) in any manner that would result in the violation of any Sanctions applicable to the City.

## **ARTICLE VII**

### **TENDER EVENTS**

**SECTION 7.01    Tender Events.**    If one or more of the following events (“Tender Events”) shall have occurred and be continuing:

(a)    the City shall fail to pay when due (i) any principal of, or interest on, any Loan (but excluding, for purposes of this subsection (a)(i), accelerated payments on the Bank Bond, which acceleration results solely from either (1) a Potential Tender Event occurring and continuing, or (2) any representation or warranty of the City contained in (or incorporated by reference in) this Agreement not being true and correct), or (ii) any fees or any other amount payable hereunder or under the Fee Letter;

(b)    the City shall fail to observe or perform any covenant or agreement contained in this Agreement (other than that covered by clause (a) above) or in any Financing Document for 60 days after written notice thereof has been given to the City by the Bank; *provided, however*, that there shall be no 60-day cure period for a failure to observe or perform any covenant or agreement set forth in or contemplated by Section 6.01, 6.04(a), 6.04(b), 6.05, 6.06, 6.08, 6.09, 6.10, 6.11, 6.12, 6.14 or 6.15;

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

(d)    the City shall fail to pay any principal of, or interest on, any of the Bonds, the Commercial Paper Notes or any of the City’s Subordinated Indebtedness (including bank-held bonds, but excluding, for purposes of this subsection (d), accelerated payments on bank-held bonds, notes or other Subordinated Indebtedness arising from unreimbursed draws on letters of credit, standby bond purchase agreements and other similar instruments, which acceleration results solely from either (i) an event of default or tender event occurring and continuing with respect thereto, or (ii) any representation or warranty of the City contained in (or incorporated by reference in) the documents relating to such bank-held bonds, notes or other Subordinated Indebtedness not being true and correct) when due or within any applicable grace period; provided



that for purposes of this subsection (d), the foregoing shall exclude (A) the failure by the City to pay any termination payments owed to a counterparty to a Qualified Hedging Contract, (B) the failure by the City to pay any net payment on any Qualified Hedging Contract that is not related to limiting or managing exposure to fluctuations in interest rates, or to obtain a marginally lower interest rate, in either case, pertaining to the Bonds or the Commercial Paper Notes, and/or (C) the failure by the City to pay any principal of, or interest on, Subordinated Indebtedness issued in the form of commercial paper notes, but only to the extent that (I) the payment of such amounts is supported in whole by a third-party liquidity provider pursuant to a liquidity agreement and (II) with respect to such commercial paper notes, no underlying, unenhanced short-term credit rating has been issued by the Rating Agencies then rating such commercial paper notes;

(e) any event or condition shall occur which (i) results in the acceleration of the maturity of any Commercial Paper Notes or any of the City's Subordinated Indebtedness or (ii) enables (or, with the giving of notice or lapse of time or both, would enable) the holder of such Subordinated Indebtedness or any Person acting on such holder's behalf to accelerate the maturity thereof;

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

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

(h) a moratorium shall have been declared or announced (whether or not in writing) by the State of Florida, the Federal Government or any other Governmental Authority with jurisdiction with respect to all of the Bonds or all of the Subordinated Indebtedness, or a moratorium shall have been declared or announced (whether or not in writing) by the City with respect to any of the Bonds or any of the Subordinated Indebtedness;

(i) one or more final, non-appealable judgment(s) or order(s) for the payment of money in excess of \$10,000,000, individually or in the aggregate, shall, individually or in the aggregate, be rendered against the City with respect to the System and such judgment(s) or order(s) shall continue unsatisfied for a period of 60 days;

(j) any material provision of this Agreement or any Financing Document (including without limiting the generality of the foregoing, Section 5.01(1) of the Subordinated Bond Resolution) related to the payment of principal or interest on the Commercial Paper Notes or the security for the Commercial Paper Notes shall at any time cease to be valid and binding on the City, or shall be declared to be null and void, in either such case, as a result of a final, non-appealable judgment of a court of competent jurisdiction or by any Governmental Authority having jurisdiction, or any Governmental Authority having jurisdiction shall find or rule in a final non-appealable judgment or order that any material provision of this Agreement or any Financing Document related to the payment of principal or interest on the Commercial Paper Notes or the security for the Commercial Paper Notes is not valid or binding on the City, or the validity or enforceability thereof shall be contested by the City;

(k) each of the Rating Agencies then rating any Bonds shall have downgraded the long-term unenhanced credit ratings on such Bonds to below "Baa3" or "BBB-", as the case may be, or shall have suspended or withdrawn the long-term unenhanced credit ratings on such Bonds for credit-related reasons; or

(l) the City shall fail to pay when due (i) any accelerated payments on the Bank Bond, (ii) any accelerated payments on bank-held bonds, notes or other Subordinated Indebtedness arising from unreimbursed draws on letters of credit, standby bond purchase agreements and other similar instruments within any applicable grace period; (iii) any termination payments owed to a counterparty to a Qualified Hedging Contract; or (iv) any net payment on any Qualified Hedging Contract that is not related to limiting or managing exposure to fluctuations in interest rates, or to obtain a marginally lower interest rate, in either case, pertaining to the Bonds or the Commercial Paper Notes;

then, and in every such event, the Bank (i) may issue to the City and the Issuing Agent pursuant to Section 2.01(b) No-Issuance Instructions, if No-Issuance Instructions have not theretofore been issued or are not then in effect, (ii) may, by notice to the City, terminate the Commitment and the Bank's obligation to make Loans hereunder and they shall thereupon terminate in accordance with Section 3.08(b), and (iii) may, by notice to the City, tender the Bank Bond to the City for payment and the City shall thereupon be obligated to pay immediately the outstanding principal amount of the Bank Bond (together with accrued interest thereon) and all other amounts owed by the City hereunder, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the City; *provided* that in the case of any of the Tender Events described in clause (a)(i), clause (d), clause (f), clause (g), clause (h), clause (i), clause (j) or clause (k) above (each, an "Immediate Tender Event"), without any notice to the City or any other act by the Bank, the Commitment and the Bank's obligation to make Loans

hereunder shall thereupon terminate and the Bank Bond shall immediately be deemed to be tendered for payment to the City and the City shall be obligated to pay immediately the outstanding principal amount of the Bank Bond (together with accrued interest thereon) and all other amounts owed by the City hereunder, without presentment, demand, protest or notice of any kind, all of which are hereby waived by the City. Promptly following the taking of any action or the occurrence of any event or condition referred to above, the Bank shall give notice thereof to the City, the Issuing Agent and the Dealer, but the failure to give any such notice or any delay in giving any such notice shall not impair the validity or effect of any action or event or condition referred to above.

Upon the occurrence and during the continuance of a Potential Tender Event described in clause (g) (a "Suspension Event"), the Bank's obligation to make Loans hereunder shall be immediately and automatically suspended, without notice, and the Bank shall be under no further obligation hereunder to make Loans hereunder until the bankruptcy, insolvency or similar proceeding referred to therein is terminated prior to the court entering an order granting the relief sought in such proceeding. In the event such proceeding is terminated, then the obligation of the Bank to make Loans hereunder shall be automatically reinstated and the terms of this Agreement shall continue in full force and effect (unless the obligation of the Bank to make Loans hereunder shall otherwise have terminated as provided in this Section 7.1) as if there had been no such suspension. If at any time prior to the Maturity Date, (x) the Potential Tender Event which gave rise to such suspension is cured or has ceased to be continuing and (y) the obligation of the Bank to make Loans under this Agreement has not otherwise terminated, then, the obligation of the Bank to make Loans under this Agreement shall be automatically reinstated. If the Potential Tender Event which gave rise to the suspension of the obligation of the Bank to make Loans under this Agreement has not been cured or has not ceased to be continuing prior to Maturity Date and the obligation of the Bank to make Loans under this Agreement has not otherwise terminated, then the obligation of the Bank to make Loans hereunder shall be automatically terminated on the Maturity Date. Promptly upon the occurrence of such termination the Bank shall give written notice of the same to the City, the Issuing Agent and the Dealer; *provided*, that the Bank shall not incur any liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the termination of the obligation of the Bank to make Loans under this Agreement.

The rights, remedies, powers and privileges provided herein and in the Financing Documents are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law or in equity or otherwise. No notice to or demand on the City in any case shall entitle the City to any other or further notice or demand in similar or other circumstances or constitute a waiver of the right of the Bank to any other or further action in any circumstances without notice or demand. The Bank may remedy any default by the City hereunder or with respect to any other person, firm or corporation in a reasonable manner without waiving the default remedied and without waiving any other prior or subsequent default by the City.

**SECTION 7.02 Effect of Tender Event.** The Bank Bond shall be immediately due and payable upon its becoming subject to payment by the City pursuant to Section 7.01 above.

## ARTICLE VIII

### CHANGE IN CIRCUMSTANCES

**SECTION 8.01 Increased Cost and Reduced Return.** If (a) the introduction of or any change in or in the interpretation of any law or regulation, (b) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having the force of law) or (c) the introduction of any applicable law, rule, regulation or guideline regarding capital adequacy, or any change therein or any change in the interpretation or administration thereof by any central bank or governmental authority charged with the interpretation or administration thereof or compliance by the Bank or any Participant (or any corporation controlling any thereof), with any request, guideline or directive regarding capital adequacy (whether or not having the force of law) of any such central bank or other authority, shall either (i) impose, modify or deem applicable any reserve, special deposit, insurance or similar requirement against letters of credit issued by the Bank, commitments of the Bank to make loans similar to the commitments made by the Bank under this Agreement, or commitments to advance funds by any Participant in connection with the commitments made by such Participant under its participation agreement, (ii) change the basis of taxation of payments due the Bank under this Agreement or the Bank Bond (other than a change in taxation of the overall net income of the Bank) or (iii) impose on the Bank or any Participant any other condition relating, directly or indirectly, to this Agreement, and the result of any event referred to in (i), (ii) or (iii) above shall be to increase the cost to the Bank of maintaining the Commitment under this Agreement, or to increase the cost of any Participant of maintaining its commitments under its participation agreement, or, in the case of any capital adequacy requirement, to reduce the rate of return on the Bank's or a Participant's capital as a consequence of its obligations under or in connection with this Agreement to a level below that which the Bank or such Participant could have achieved but for the imposition of such requirement (taking into account the Bank's or such Participant's capital adequacy policies) or reduce any amount receivable by the Bank or such Participant hereunder or in connection herewith (which increase in cost, reduction in rate of return or reduction in amount receivable shall be the result of the Bank's or such Participant's reasonable allocation of the aggregate of such increases or reductions resulting from such event), then the City shall, upon written notice from the Bank (which notice shall set forth the matters described below), pay to the Bank, for the account of the Bank or such Participant, as the case may be, from time to time as specified by the Bank, such additional amounts as shall be demanded by the Bank as sufficient to compensate the Bank or such Participant, as the case may be, for such increased cost. Any notice relating to increased costs given the City by the Bank pursuant to this Section 8.01 shall state whether the Bank or a Participant has become subject to such increase in costs, reduction in rate of return or reduction in amount receivable, and if a Participant, the name of the Participant, and such notice shall specify in reasonable detail (x) the circumstances giving rise to such increase, (y) the date of the event giving rise to such increase and (z) the amount of the increase, which amount the Bank shall certify has been computed in accordance with all applicable rules and regulations. In addition, if the increase in costs is with respect to a Participant, such notice shall further specify in reasonable detail (A) the laws under which such Participant is organized and existing, (B) if such Participant executed and delivered its participation agreement and purchased its participation thereunder through a branch or agency of such Participant licensed to conduct business under the banking laws of a particular State of the United States, the name of that State,

(C) the amount of the fees payable to and retained by such Participant under its participation agreement, which amount such Participant shall certify has been computed in accordance with all applicable rules and regulations and (D) the percentage by which such Participant's costs have increased over the amount of such fees.

Notwithstanding the foregoing, for purposes of this Agreement (a) all rules, guidelines or directives in connection with the Dodd-Frank Act shall be deemed to be a change in law, regardless of the date enacted, adopted or issued, and (b) all rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Regulations and Supervisory Practices (or any successor or similar authority) shall be deemed a change in law regardless of the date enacted, adopted or issued.

Notwithstanding anything to the contrary in this Section 8.01, no amount or amounts payable to any Participant as a result of the provisions set forth in this Section 8.01 may exceed an amount or amounts that would have been payable to the Bank pursuant to such provisions had the Bank retained for its own account that portion of the Commitment held by such Participant.

The provisions of this Section 8.01 shall survive any termination of this Agreement.

## **SECTION 8.02 Taxes.**

(a) To the extent permitted by law, any and all payments by the City hereunder or under the Bank Bond shall be made free and clear of and without deduction for any and all taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding taxes imposed on the overall net income of the Bank or any Participant (and franchise taxes imposed in lieu of net income taxes) by the jurisdiction of the Bank's or Participant's applicable lending office or any political subdivision thereof (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the City shall be required by law to withhold or deduct any Taxes from or in respect of any sum payable hereunder or under the Bank Bond, then, to the extent permitted by law, (i) the sum payable shall be increased as may be necessary so that after making all required withholdings or deductions (including those applicable to additional sums payable under this Section 8.02) the Bank or Participant receives an amount equal to the sum it would have received had no such withholdings or deductions been made, (ii) the City shall make such withholdings or deductions and (iii) the City shall pay the full amount withheld or deducted to the relevant taxation authority or other authority in accordance with applicable law. Notwithstanding anything to the contrary contained herein, the City shall not be required to pay any additional amount in respect of withholding of United States Federal income taxes pursuant to this Section to the extent such withholding is required because the Bank or Participant has failed to submit any form or certificate that it is entitled to submit under applicable law to qualify for an exemption from such withholding.

(b) In addition, to the extent permitted by law, the City agrees to pay any present or future stamp or documentary taxes, charges or similar levies that arise under the laws of the United States of America, the State of New York, the Commonwealth of Massachusetts

and the State of Florida from any payment made or received hereunder or received under the Bank Bond or from the execution or delivery or otherwise with respect to this Agreement or the Bank Bond (hereinafter referred to as "Other Taxes").

(c) Payments by the City pursuant to this Section 8.02 shall be made within thirty (30) days from the date the Bank or the Participant, as applicable, makes written demand therefor which demand shall be accompanied by a certificate describing in reasonable detail the basis thereof, which shall be conclusive absent manifest error.

(d) Within thirty (30) days after the date of any payment of Taxes by the City, the City shall furnish to the Bank, at its address specified in or pursuant to Section 9.01 hereof, the original or a certified copy of a receipt evidencing payment thereof. The City shall compensate the Bank or Participant for all losses and expenses sustained by the Bank or Participant as a result of any failure by the City to so furnish such copy of such receipt.

(e) Without prejudice to the survival of any other agreement of the City hereunder, the agreements and obligations contained in this Section 8.02 shall survive the payment in full of principal and interest payable to the Bank hereunder and under the Bank Bond.

(f) Notwithstanding anything to the contrary in this Section 8.02, no amount or amounts payable to any Participant as a result of the provisions set forth in this Section 8.02 may exceed an amount or amounts that would have been payable to the Bank pursuant to such provisions had the Bank retained for its own account that portion of the Commitment held by such Participant.

## ARTICLE IX

### MISCELLANEOUS

**SECTION 9.01 Notices.** Except as otherwise specifically provided herein, all notices, requests and other communications hereunder shall be in electronic, telephonic or written form (including telecopier or similar writing) and shall be given to the party to whom addressed, at its address or telephone or telecopier number set forth below, or such other address or telephone or telecopier number as such party may hereafter specify for the purpose by notice to the other parties. Each such notice, request or communication shall be effective (i) if given by telephone, when given to the number indicated below to a person which the transmitting party reasonably believes to be an authorized representative of the party to whom the notice is directed, (ii) if given by telecopy or other electronic means, when such communication is transmitted to the appropriate address and the appropriate answerback is received, (iii) if given by mail, 3 days after such communication is deposited in the United States mail with first class postage prepaid, addressed as aforesaid or (iv) if given by any other means, when delivered at the appropriate address; *provided* that notices to the Bank under Article III shall not be effective until received; and *provided further* that No-Issuance Instructions given by the Bank to the City or the Issuing Agent shall be effective immediately upon receipt thereof:

If to the City, to:

City of Gainesville, Florida  
301 S.E. Fourth Avenue, Station A-134  
Gainesville, Florida 32601  
Attention: General Manager for Utilities  
Telephone: (352) 393-1035  
Telecopier: (352) 334-2277

If to the Bank, to:

(regarding credit matters):

State Street Bank and Trust Company  
State Street Financial Center SFC/5  
One Lincoln St.  
Boston, Massachusetts 02111-2900  
Attention: Thomas Henderson  
Telephone: (617) 664-1064  
Telecopier: (617) 946-0538

(regarding operational matters):

State Street Bank and Trust Company  
State Street Financial Center SFC/5  
One Lincoln St.  
Boston, Massachusetts 02111-2900  
Attention: Thomas Marra (Operations Contact)  
Telephone: (617) 664-5862  
Telecopier: (617) 350-4020  
Email: [munifinanceadministration@statestreet.com](mailto:munifinanceadministration@statestreet.com)

If to the Issuing Agent, to:

U.S. Bank National Association  
100 Wall Street, 16th floor  
New York, New York 10005  
Attention: Jean Clarke  
Telephone: (212) 361-6173  
Telecopier: (212) 361-6153

If to the Dealer, to:

Goldman, Sachs & Co.  
200 West Street  
33rd Floor  
New York, New York 10282  
Attention: Municipal Finance Department  
Telephone: (212) 902-6633  
Telecopier: (212) 346-4209 or (212) 428-3132

If to Moody's, to:

Moody's Investors Service  
7 World Trade Center at 250 Greenwich Street  
New York, New York 10007  
Attention: Public Finance Department Rating Desk/CP

If to S&P, to:

Standard & Poor's Ratings Services  
55 Water Street  
38th floor  
New York, New York 10041  
Attention: Public Finance Department

All notices given by telephone, telecopier or other electronic means shall be confirmed in writing as promptly as practicable.

**SECTION 9.02 No Waivers.** No failure or delay by the Bank in exercising any right, power or privilege hereunder or under the Bank Bond shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

**SECTION 9.03 Expenses; Documentary Taxes; Indemnification.**

(a) The City shall pay (i) all out-of-pocket expenses of the Bank, including fees and disbursements of counsel for the Bank (including allocated costs of in-house counsel), in connection with the preparation of this Agreement and the Financing Documents, any waiver or consent hereunder or any amendment hereof or any Potential Tender Event or alleged Potential Tender Event hereunder (*provided* that the City shall not be obligated to pay fees of counsel for the Bank in connection with the preparation of this Agreement in excess of \$25,000, plus reasonable disbursements) and (ii) if a Potential Tender Event occurs, all reasonable out-of-pocket expenses incurred by the Bank, including fees and disbursements of counsel (including allocated costs of in-house counsel), in connection with such Potential Tender Event and collection, bankruptcy, insolvency and other enforcement proceedings resulting therefrom. If and to the extent permitted by applicable law, the City shall indemnify the Bank against any



transfer taxes, documentary taxes, assessments or charges made by any Governmental Authority by reason of the execution and delivery of this Agreement or the Bank Bond.

(b) If and to the extent permitted by applicable law, the City agrees to indemnify the Bank and hold the Bank harmless from and against any and all liabilities, losses, damages, costs and expenses of any kind, including, without limitation, the reasonable fees and disbursements of counsel (including allocated costs of in-house counsel), which may be incurred by the Bank in connection with any investigative, administrative or judicial proceeding (whether or not the Bank shall be designated a party thereto) relating to or arising out of this Agreement or any Financing Document or any actual or proposed use of proceeds of Loans hereunder; *provided* that the Bank shall not have the right to be indemnified hereunder for its own gross negligence or willful misconduct as determined by a court of competent jurisdiction.

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

**SECTION 9.04 Amendments and Waivers.** Any provision of this Agreement, the Fee Letter or the Bank Bond may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the City and the Bank. Each party to this Agreement agrees that it will not rely on any course of dealing, course of performance or oral or written statement by any representative of any other party that does not comply with this Section to effect an amendment, modification, supplement, extension, termination or waiver to departure from the provisions of this Agreement or any Financing Document or any consent thereto.

**SECTION 9.05 Assignments, Participations, Etc.**

(a) This Agreement shall be binding upon and inure to the benefit of the City, the Bank, and their respective permitted successors and assigns; *provided, however*, that (i) the City may not assign or transfer any of its rights or obligations hereunder without the prior written consent of the Bank and any assignment without such consent shall be void, and (ii) prior to any assignment or transfer by the Bank of its obligations hereunder, the City and the Bank shall have received written evidence from each Rating Agency then rating the Commercial Paper Notes that the ratings on the Commercial Paper Notes following the assignment or transfer by the Bank of its obligations hereunder will not be reduced or withdrawn from the ratings on the Commercial Paper Notes immediately prior to such assignment or transfer.

(b) The Bank may at any time sell to one or more banks or other entities (a "Participant") participating interests in any Loans, the Commitment or any other interest of the

Bank hereunder; *provided* that (i) the Bank's obligations under this Agreement shall remain unchanged, (ii) the Bank shall remain solely responsible for the performance of such obligations, (iii) the City shall continue to deal solely and directly with the Bank in connection with the Bank's rights and obligations under this Agreement, and (iv) the Bank shall not transfer or grant any participating interest under which the Participant shall have rights to approve any amendment to, or any consent or waiver with respect to this Agreement. In the case of any such participation, the Participant shall not have any rights under this Agreement, or any of the Financing Documents, and all amounts payable by the City hereunder shall be determined as if the Bank had not sold such participation, except that if amounts outstanding under this Agreement are due and unpaid, or the Bank Bond shall have become due and payable upon the occurrence of a Tender Event, each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Agreement to the same extent as if the amount of its participating interest were owing directly to it as the Bank under this Agreement.

(c) The Bank may at any time pledge or grant a security interest in all or any portion of its rights under the Bank Bond, this Agreement and the other Financing Documents to secure obligations of the Bank, including any pledge or assignment to secure obligations to a Federal Reserve Bank or Federal Home Loan Bank; *provided* that no such pledge or assignment shall release the Bank from any of its obligations hereunder or substitute any such pledgee or assignee for the Bank as a party hereto.

**SECTION 9.06 Governing Law.** THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK; *PROVIDED* THAT THE OBLIGATIONS OF THE CITY HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF FLORIDA.

**SECTION 9.07 Counterparts; Integration.** This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement constitutes the entire agreement and understanding among the parties hereto and, except with respect to the other documents and agreements referred to herein, supersedes any and all prior agreements and understandings, oral or written, relating to the subject matter hereof.

**SECTION 9.08 Waiver of Jury Trial.** THE CITY AND THE BANK EACH HEREBY IRREVOCABLY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

**SECTION 9.09 Jurisdiction; Venue.** With respect to any suit, action or proceeding relating to, or arising from, this Agreement, each party hereto irrevocably submits to the jurisdiction of the courts of the State of New York or the State of Florida and the federal courts located in the State of New York and the State of Florida and agrees that any such suit, action or proceeding shall be had and maintained in (a) the Federal District Court for the Southern District of New York (but solely to the extent such court has jurisdiction, and otherwise in an appropriate court of the State of New York) or (b) the Federal District Court for the

Northern District of Florida (but solely to the extent such court has jurisdiction, and otherwise in an appropriate court of the State of Florida).

**SECTION 9.10 Patriot Act Notice.** The Bank hereby notifies the City that pursuant to the requirements of the Patriot Act it is required to obtain, verify and record information that identifies the City, which information includes the name and address of the City and other information that will allow the Bank to identify the City in accordance with the Patriot Act. The City hereby agrees that it shall promptly provide such information upon request by the Bank.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

CITY OF GAINESVILLE, FLORIDA

By: David M. Richardson  
Name: David M. Richardson  
Title: Interim Chief Financial Officer

Approved as to form  
and legality:

Shayla L. McNeill  
Name: Shayla L. McNeill  
Title: Utilities Attorney

STATE STREET BANK AND TRUST  
COMPANY

By: \_\_\_\_\_  
Name: Timothy L. Batler  
Title: Senior Vice President

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

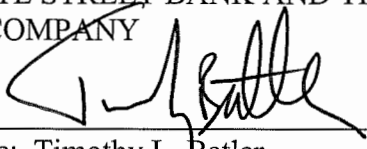
CITY OF GAINESVILLE, FLORIDA

By: \_\_\_\_\_  
Name: David M. Richardson  
Title: Interim Chief Financial Officer, Utilities

Approved as to form  
and legality:

\_\_\_\_\_  
Name: Shayla L. McNeill  
Title: Utilities Attorney

STATE STREET BANK AND TRUST  
COMPANY

By:  \_\_\_\_\_  
Name: Timothy L. Butler  
Title: Senior Vice President

FORM OF NOTICE OF REVOLVING CREDIT BORROWING

[Date]

To: State Street Bank and Trust Company (the "Bank")  
From: City of Gainesville, Florida (the "City")  
Re: Credit Agreement, dated as of August 1, 2014,  
between the City and the Bank (the "Credit Agreement")

We hereby give notice, on behalf of the City, pursuant to Section 3.02(a) of the Credit Agreement, of the following proposed Revolving Credit Loan:

Date of Loan: \_\_\_\_\_

Amount of Loan: \_\_\_\_\_

Terms used herein have the meanings assigned to them in the Credit Agreement.

CITY OF GAINESVILLE, FLORIDA

By U.S. BANK NATIONAL ASSOCIATION,  
as Issuing Agent

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

FORM OF NOTICE OF TERM BORROWING

[Date]

To: State Street Bank and Trust Company (the "Bank")  
From: City of Gainesville, Florida (the "City")  
Re: Credit Agreement, dated as of August 1, 2014,  
between the City and the Bank (the "Credit Agreement")

We hereby give notice, on behalf of the City, pursuant to Section 3.02(b) of the Credit Agreement, of the following proposed Term Loan:

Date of Loan: \_\_\_\_\_

Amount of Loan: \_\_\_\_\_

Terms used herein have the meanings assigned to them in the Credit Agreement.

CITY OF GAINESVILLE, FLORIDA

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

FORM OF NO-ISSUANCE INSTRUCTIONS

City of Gainesville, Florida  
301 S.E. Fourth Avenue  
Gainesville, Florida 32601  
Attention: General Manager for Utilities  
(FAX: [(352) 334-2277])

U.S. Bank National Association  
100 Wall Street, 16th floor  
New York, New York 10005  
Attention: Jean Clarke  
(FAX: (212) 361-6153)

Dear Ladies and Gentlemen:

The undersigned, STATE STREET BANK AND TRUST COMPANY, pursuant to the Credit Agreement, dated as of August 1, 2014 (the "Credit Agreement"), between the undersigned and the City of Gainesville, Florida (the "City"), hereby gives notice to the City and U.S. Bank National Association, in its capacity as successor Issuing Agent under the Issuing and Paying Agency Agreement Relating to Utilities System Commercial Paper Notes, Series D, dated as of June 15, 2000, between Bankers Trust Company and the City, as amended, that [a Potential Tender Event under [specify applicable Section(s) of the Credit Agreement] has occurred and is continuing][a material representation or warranty of the City in [specify applicable Section(s) of the Credit Agreement] is not true and correct on and as of the date hereof], and hereby instructs you not to issue, authenticate or deliver any Commercial Paper Notes (other than those Commercial Paper Notes permitted to be issued, authenticated and delivered as provided in Section 2.01(b) of the Credit Agreement) from and after your receipt of these No-Issuance Instructions, until these No-Issuance Instructions are rescinded in writing by the undersigned.

Terms used herein and not defined shall have the meanings set forth in the Credit Agreement.

Very truly yours,

STATE STREET BANK AND TRUST  
COMPANY

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



FORM OF OPINION OF THE OFFICE OF THE CITY ATTORNEY

[Effective Date]

State Street Bank and Trust Company  
State Street Financial Center SFC/5  
One Lincoln St.  
Boston, Massachusetts 02111-2900

Ladies and Gentlemen:

We have acted as issuer's counsel to the City of Gainesville, Florida, a municipal corporation duly created, organized and existing under the laws of the State of Florida (the "City"), in connection with the execution and delivery of the Credit Agreement (the "Credit Agreement"), dated as of August 1, 2014, between the City and State Street Bank and Trust Company (the "Bank"). This opinion is being rendered to you at the request of the City pursuant to Section 4.01(d)(i) of the Credit Agreement.

As such counsel we have examined, among other things, (a) the Constitution and laws of the State of Florida, including Chapter 90-394, Laws of Florida, 1990, as amended and supplemented to the date hereof, Chapter 166, Part II, Florida Statutes, as amended and supplemented to the date hereof, and other applicable provisions of law, (b) the proceedings of the City authorizing the execution and delivery of the Credit Agreement, (c) the Utilities System Revenue Bond Resolution of the City, adopted June 6, 1983, as supplemented, amended and restated to the date hereof (the "Bond Resolution"), (d) the Subordinated Utilities System Revenue Bond Resolution of the City, adopted January 26, 1989, as supplemented, amended and restated to the date hereof, including as supplemented by the Fourth Supplemental Subordinated Utilities System Revenue Bond Resolution of the City, adopted June 15, 2000 (such Subordinated Utilities System Revenue Bond Resolution, as so supplemented, amended and restated, being referred to herein as the "Subordinated Bond Resolution"), (e) the Issuing and Paying Agency Agreement Relating to Utilities System Commercial Paper Notes, Series D, dated as of June 15, 2000, between the City and Bankers Trust Company, (f) the Credit Agreement and (g) the Fee Letter, dated of even date herewith, between the City and the Bank (the "Fee Letter"), and have made such other investigations of law and fact as we have deemed necessary to render the following opinion. We have assumed that all signatures (other than those of officials of the City) and all documents we reviewed are genuine, and that all copies submitted to us are genuine and accurate copies of the originals of such documents.

Capitalized terms not otherwise defined herein shall have the same meanings given to such terms in the Credit Agreement.

Based upon the foregoing, it is our opinion that:

(1) The City (a) is a municipal corporation duly organized and validly existing under the laws of the State of Florida, (b) has all requisite power and authority and the legal right to own and operate the System, and (c) to our knowledge (without independent investigation), is in compliance with all Requirements of Law, except to the extent that the failure to comply therewith would not, in the aggregate, have a material adverse effect on the business, operations, property or financial or other condition of the System, and would not materially adversely affect the ability of the City to perform its obligations under the Resolutions, the Credit Agreement and the Bank Bond.

(2) The City has all requisite power and authority and the legal right to adopt the Resolutions, to make, deliver and perform the Credit Agreement, the Fee Letter and the Bank Bond and to borrow under the Credit Agreement and to secure the payment of its obligations in respect of such borrowings by the pledge of the Subordinated Indebtedness Fund as provided in the Subordinated Bond Resolution, and has taken all necessary action to authorize the borrowings and such pledge on the terms and conditions of the Credit Agreement, the Bank Bond and the Resolutions, and to authorize the execution, delivery and performance of the Credit Agreement, the Fee Letter and the Bank Bond. No consent or authorization of, filing with, or other act by or in respect of any Governmental Authority is required in connection with the borrowings under the Credit Agreement or with the execution, delivery, performance, validity or enforceability of the Credit Agreement, the Fee Letter, the Bank Bond or the other Financing Documents. The Bond Resolution and the Subordinated Bond Resolution have been duly adopted and are in full force and effect and the Credit Agreement and the Fee Letter have been duly authorized, executed and delivered by the City, and, assuming due authorization, execution and delivery by the other party thereto, are in full force and effect. The Bank Bond has been duly executed and delivered on behalf of the City. The Credit Agreement, the Fee Letter and the Bank Bond constitute legal, valid and binding obligations of the City enforceable against the City in accordance with their respective terms, and no other authorization on the part of the City is required in connection with the Credit Agreement, the Fee Letter and the Bank Bond. The Bank Bond is a direct and special obligation of the City payable from amounts in the Subordinated Indebtedness Fund and does not constitute a general indebtedness or a pledge of the full faith and credit of the City within the meaning of any constitutional or statutory provision or limitation of indebtedness, nor constitute a lien on any property of or in the City other than the pledge of the Subordinated Indebtedness Fund as provided in the Subordinated Bond Resolution.

(3) The execution, delivery and performance of the Credit Agreement, the Fee Letter and the Bank Bond, the borrowings under the Credit Agreement and the use of the proceeds thereof will not violate any constitutional provision or applicable material law of the State of Florida or, to our knowledge, any judgment or decree of any arbitrator, court or other Governmental Authority, or, to our knowledge, any other material Requirement of Law or, to our knowledge, any material Contractual Obligation of the City, and, except for the pledge of the Subordinated Indebtedness Fund effected by the Subordinated Bond Resolution, will not result in, or require, the creation or imposition of any lien or encumbrance on or security interest in any of the properties or Revenues of the System pursuant to any such Requirement of Law or Contractual Obligation.

(4) Except as disclosed in the Reoffering Memorandum, no litigation or proceeding or, to our knowledge, investigation of or before any arbitrator or Governmental Authority is pending or, to our knowledge, threatened by or against the City or against any of its properties or revenues (a) with respect to any of the Resolutions, the Credit Agreement, the Fee Letter or the Bank Bond or any of the transactions contemplated thereby, or (b) which would have a material adverse effect on the business, operations, property or financial or other condition of the System or the ability of the City to perform its obligations under the Bond Resolution, the Subordinated Bond Resolution, the Credit Agreement, the Fee Letter or the Bank Bond or in respect of any other Indebtedness incurred to finance or otherwise in respect of the System or secured by Revenues or other assets of the System; provided, that no opinion is rendered with respect to any litigation or proceeding which has been commenced but of which the City has not been notified and of which we have no knowledge.

The foregoing opinions are subject to the effect of, and restrictions and limitations imposed by or resulting from, bankruptcy, insolvency, debt adjustment, moratorium, reorganization or other similar laws affecting creditors' rights and judicial discretion and the valid exercise of the sovereign police powers of the State of Florida and of the constitutional power of the United States of America.

By use of the word "enforceable" in this opinion, we are not rendering any opinion as to the availability of the remedy of specific performance or other equitable relief.

All opinions expressed are limited solely to Florida law. No opinion is expressed as to the laws of any other state. No opinion is expressed herein as to compliance with federal or state securities registration laws.

Our opinion is limited in all respects to the laws existing on the date hereof. By providing this opinion to you, we do not undertake to advise you of any changes in the law which may occur after the date hereof or to revise, update or modify this opinion subsequent to the date hereof.

This letter is furnished solely to you in connection with the transaction described herein, and may not be quoted, furnished to or relied upon by any other person or entity in any manner or for any purpose.

Yours truly,

OFFICE OF THE CITY ATTORNEY

By \_\_\_\_\_  
Shayla L. McNeill  
Utilities Attorney

FORM OF OPINION OF ORRICK, HERRINGTON & SUTCLIFFE LLP

[Effective Date]

State Street Bank and Trust Company  
State Street Financial Center SFC/5  
One Lincoln St.  
Boston, Massachusetts 02111-2900

Ladies and Gentlemen:

We have acted as Bond Counsel to the City of Gainesville, Florida, a municipal corporation organized and existing under the laws of the State of Florida (the "City"), in connection with the execution and delivery of the Credit Agreement (the "Credit Agreement"), dated as of August 1, 2014, between the City and State Street Bank and Trust Company. This opinion is being rendered to you at the request of the City pursuant to Section 4.01(d)(ii) of the Credit Agreement. Unless otherwise defined herein, terms defined in the Credit Agreement are used herein as therein defined.

We have delivered our final legal opinion (the "Bond Opinion") as bond counsel to the City concerning the validity of the Commercial Paper Notes and certain other matters, dated the date hereof and addressed to the City, as issuer of the Commercial Paper Notes. You may rely on such opinion as though the same were addressed to you.

In such connection, we have reviewed the Credit Agreement; the Fee Letter; a certified copy of the Utilities System Revenue Bond Resolution of the City, adopted June 6, 1983, as supplemented, amended and restated to the date hereof (the "Bond Resolution"); a certified copy of the Subordinated Utilities System Revenue Bond Resolution of the City, adopted January 26, 1989, as supplemented, amended and restated to the date hereof, including as supplemented by the Fourth Supplemental Subordinated Utilities System Revenue Bond Resolution of the City, adopted June 15, 2000 (such Subordinated Utilities System Revenue Bond Resolution, as so supplemented, amended and restated, being referred to herein as the "Subordinated Bond Resolution"); a certified copy of the Issuing and Paying Agency Agreement Relating to Utilities System Commercial Paper Notes, Series D, dated as of June 15, 2000, between the City and Bankers Trust Company, as amended to the date hereof; an opinion of the Office of City Attorney of the City; certificates of the City and others; and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions

are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. We have assumed the genuineness of all documents and signatures (other than those of representatives of the City) presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the third paragraph hereof (except that we have not relied on any such legal conclusions that are to the same effect as the opinions set forth herein). Furthermore, we have assumed compliance with all covenants and agreements contained in the Bond Resolution, the Subordinated Bond Resolution, the Bank Bond and the Credit Agreement. We call attention to the fact that the rights and obligations under the Bank Bond, the Subordinated Bond Resolution and the Credit Agreement and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against municipal corporations of the State of Florida. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice.

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

1. The City (a) is a municipal corporation duly organized and validly existing under the laws of the State of Florida and (b) has all requisite power and authority and the legal right to own and operate the System.

2. The City has all requisite power and authority and the legal right to adopt the Bond Resolution, and the Bond Resolution has been duly and lawfully adopted by the City, is in full force and effect, is valid and binding upon the City and is enforceable in accordance with its terms, and no other authorization for the Bond Resolution is required. The Subordinated Bond Resolution creates the valid pledge which it purports to create of the Subordinated Indebtedness Fund; provided, however, that (i) such pledge and assignment shall be on a parity with (a) the pledge and assignment thereof created by the Subordinated Bond Resolution as security for the Subordinated Bonds and (b) the pledge and assignment thereof created by any Supplemental Resolution as security for any Parity Subordinated Indebtedness (as defined in the Subordinated Bond Resolution) and (ii) such pledge and assignment shall be subordinate in all respects to the pledge and assignment of the Trust Estate created by (and as defined in) the Bond Resolution as security for the Bonds.

3. The City has all requisite power and authority and the legal right to make, deliver and perform the Credit Agreement, the Fee Letter and the Bank Bond and to borrow under the Credit Agreement and to secure the payment of its obligations in

respect of such borrowings by the pledge of the Subordinated Indebtedness Fund as provided in the Subordinated Bond Resolution, and has taken all necessary action to authorize the borrowings and such pledge on the terms and conditions of the Credit Agreement, the Bank Bond and the Bond Resolution, and to authorize the execution, delivery and performance of the Credit Agreement, the Fee Letter and the Bank Bond. No consent or authorization of, filing with, or other act by or in respect of any Governmental Authority is required in connection with the borrowings under the Credit Agreement or with the execution, delivery, performance, validity or enforceability of the Credit Agreement, the Fee Letter, the Bank Bond or the other Financing Documents. The Credit Agreement and the Fee Letter have been duly authorized, executed and delivered by the City, and, assuming due authorization, execution and delivery by the other party thereto, are in full force and effect. The Bank Bond has been duly executed and delivered on behalf of the City. The Credit Agreement, the Fee Letter and the Bank Bond constitute legal, valid and binding obligations of the City enforceable against the City in accordance with their respective terms, and no other authorization on the part of the City is required in connection with the Credit Agreement, the Fee Letter and the Bank Bond. The Bank Bond is a direct and special obligation of the City payable from amounts in the Subordinated Indebtedness Fund and does not constitute a general indebtedness or a pledge of the full faith and credit of the City within the meaning of any constitutional or statutory provision or limitation of indebtedness, nor constitute a lien on any property of or in the City other than the pledge of the Subordinated Indebtedness Fund as provided in the Subordinated Bond Resolution. The Bank Bond ranks equally as to security and source of payment from amounts on deposit in the Subordinated Indebtedness Fund with the Commercial Paper Notes and all other Subordinated Bonds and Parity Subordinated Indebtedness that heretofore have been issued or that may be issued hereafter.

4. The execution, delivery and performance of the Credit Agreement, the Fee Letter and the Bank Bond, the borrowings under the Credit Agreement and the use of the proceeds thereof will not violate any constitutional provision or applicable law of the State of Florida, the United States of America, or any department, division, agency or instrumentality of the United States, or any judgment or decree of any arbitrator, court or other Governmental Authority of which we have knowledge, or, to our knowledge, any other Requirement of Law or, to our knowledge, any Contractual Obligation of the System, and, except for the pledge of the Subordinated Indebtedness Fund effected by the Subordinated Bond Resolution, will not result in, or require, the creation or imposition of any lien or encumbrance on or security interest in any of the properties or Revenues of the System pursuant to any such Requirement of Law or Contractual Obligation.

5. Interest on the Bank Bond is not excludable from the gross income of the holder thereof for U.S. federal income tax purposes.

This letter is furnished by us as bond counsel to the City. No attorney-client relationship has existed or exists between our firm and you in connection with the Credit Agreement or by virtue of this letter. We disclaim any obligation to update this letter. This letter is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. This letter is not intended to, and may not, be relied upon by owners of the Commercial Paper Notes or by any other party to whom it is not specifically addressed.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

FORM OF OPINION OF COUNSEL TO THE BANK

[to come from Bank's counsel]



## APPENDIX F

### TABLE OF OUTSTANDING DEBT

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

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

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

<sup>(1)</sup> Information in the table, Outstanding Debt of the City Issued for the System, reflects principal balances as of October 1, 2016. Given the audit reflects the fiscal year ending on September 30th, the principal amounts in the audit will be different than the principal amounts in the table if that series of bonds had principal amortization on October 1, 2016.

<sup>(2)</sup> See Note 9 to the audited financial statement of the System for the fiscal year ending September 30, 2016 for a discussion of the various risks borne by the City relating to interest rate swap transactions.

<sup>(3)</sup> The City has entered into a floating-to-floating rate interest rate swap transaction (the "2005 Series B Swap Transaction") with respect to a pro rata portion of each of the maturities of the Utilities System Revenue Bonds, 2005 Series B (Federally Taxable) (the "2005 Series B Bonds"). The initial notional amount of the 2005 Series B Swap Transaction was \$45,000,000, which

corresponded to approximately 73.1% of the principal amount of each maturity of the 2005 Series B Bonds. The counterparty to the 2005 Series B Swap transaction currently has a counterparty risk rating of "Aa2" from Moody's and a counterparty credit rating of "AA-" from S&P. The term of the 2005 Series B Swap Transaction was identical to the term of the 2005 Series B Bonds, and the notional amount of the 2005 Series B Swap Transaction was scheduled to amortize at the same times and in the same amounts as the pro rata portion of the 2005 Series B Bonds to which it related. The 2005 Series B Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the 2005 Series B Swap Transaction, the City will pay to the counterparty a rate equal to the SIFMA Municipal Swap Index (formerly known as the BMA Municipal Swap Index) and will receive from the counterparty a rate equal to 77.14% of the one-month LIBOR rate. The effect of the 2005 Series B Swap Transaction was to convert synthetically the interest rate on such pro rata portion of the 2005 Series B Bonds from a taxable rate to a tax-exempt rate. The City has designated the 2005 Series B Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution. . On August 2, 2012, \$31,560,000 of the taxable 2005 Series B Bonds (the "Refunded Taxable 2005 Bonds") were redeemed with proceeds from the issuance of the City's tax-exempt Variable Rate Utilities System Revenue Bonds, 2012 Series B (the "2012 Series B Bonds"). As a result, the 2005 Series B Swap Transaction no longer served as a hedge against the 2005 Series B Bonds. However, since the City had other taxable Bonds outstanding, the City left that portion of the 2005 Series B Swap Transaction allocable to the Refunded Taxable 2005 Bonds outstanding following the issuance of the 2012 Series B Bonds, as a partial hedge against the interest rates to be borne by such other taxable Bonds, although such portion of the 2005 Series B Swap Transaction does not specifically match, in terms of its notional amount and amortization, any particular Series and maturity of such other taxable Bonds.

- (4) In connection with the issuance of the 2005 Series C Bonds, the City entered into a floating-to-fixed rate interest rate swap transaction (the "2005 Series C Swap Transaction") with respect to the 2005 Series C Bonds. The counterparty to the 2005 Series C Swap Transaction currently has a counterparty credit rating of "Aa3" from Moody's and a counterparty credit rating of "A+" from S&P. The term of the 2005 Series C Swap Transaction was identical to the term of the 2005 Series C Bonds, and the notional amount of the 2005 Series C Swap Transaction was scheduled to amortize at the same times and in the same amounts as the 2005 Series C Bonds. The 2005 Series C Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the 2005 Series C Swap Transaction, the City will pay to the counterparty a fixed rate of 3.20% per annum and will receive from the counterparty a rate equal to 60.36% of the ten-year LIBOR swap rate. The effect of the 2005 Series C Swap Transaction was to fix synthetically the interest rate on the 2005 Series C Bonds at a rate of approximately 3.20% per annum, although the City bears basis risk, which may be positive or negative, between the rate received on the 2005 Series C Swap Transaction and the rate paid on the 2005 Series C Bonds, which could result in a realized rate over time that may be lower or higher than the 3.20% rate payable by the City under the 2005 Series C Swap Transaction. The City has designated the 2005 Series C Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution. . On August 2, 2012, \$17,570,000 of the 2005 Series C Bonds (such portion of the 2005 Series C Bonds is referred to herein as the "Refunded Tax-Exempt 2005 Bonds") were redeemed with proceeds from the issuance of the 2012 Series B Bonds. The City left that portion of the 2005 Series C Swap Transaction allocable to the Refunded Tax-Exempt 2005 Bonds outstanding following the issuance of the 2012 Series B Bonds, as a partial hedge against the interest rates to be borne by the 2012 Series B Bonds, although such portion of

the 2005 Series C Swap Transaction does not specifically match, in terms of its notional amount and amortization, the 2012 Series B Bonds.

- (5) In contemplation of the issuance of the 2006 Series A Bonds, in September 2005, the City entered into a forward-starting floating-to-fixed rate interest rate swap transaction (as amended, the "2006 Series A Swap Transaction") with respect to the 2006 Series A Bonds. The counterparty to the 2006 Series A Swap Transaction currently has a counterparty risk rating of "Aa2" from Moody's and a counterparty credit rating of "AA-" from S&P. The term of the 2006 Series A Swap Transaction was identical to the term of the 2006 Series A Bonds, and the notional amount of the 2006 Series A Swap Transaction was scheduled to amortize at the same times and in the same amounts as the 2006 Series A Bonds. The 2006 Series A Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the 2006 Series A Swap Transaction, the City will pay to the counterparty a fixed rate of 3.224% per annum and will receive from the counterparty a rate equal to 68% of the ten-year LIBOR swap rate minus 36.5 basis points. The effect of the 2006 Series A Swap Transaction was to fix synthetically the interest rate on the 2006 Series A Bonds at a rate of approximately 3.224% per annum, although the City bears basis risk, which may be positive or negative, between the rate received on the 2006 Series A Swap Transaction and the rate paid on the 2006 Series A Bonds, which could result in a realized rate over time that may be lower or higher than the 3.224% rate payable by the City under the 2006 Series A Swap Transaction. The City has designated the 2006 Series A Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution. . On August 2, 2012, \$25,930,000 of the 2006 Series A Bonds (such portion of the 2006 Series A Bonds is referred to herein the "Refunded Tax-Exempt 2006 Bonds") were redeemed with proceeds from the issuance of the 2012 Series B Bonds. The City left that portion of the 2006 Series A Swap Transaction allocable to the Refunded Tax-Exempt 2006 Bonds outstanding following the issuance of the 2012 Series B Bonds, as a partial hedge against the interest rates to be borne by the 2012 Series B Bonds, although such portion of the 2006 Series A Swap Transaction does not specifically match, in terms of its notional amount and amortization, the 2012 Series B Bonds.
- (6) The City has entered into a floating-to-fixed rate interest rate swap transaction (the "2007 Series A Swap Transaction") with respect to the Variable Rate Utilities System Revenue Bonds, 2007 Series A (the "2007 Series A Bonds"). The counterparty to the 2007 Series A Swap Transaction currently has a counterparty risk rating of "Aa2" from Moody's and a financial program rating of "AA-" from S&P. The term of the 2007 Series A Swap Transaction is identical to the term of the 2007 Series A Bonds, and the notional amount of the 2007 Series A Swap Transaction will amortize at the same times and in the same amounts as the 2007 Series A Bonds. The 2007 Series A Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the 2007 Series A Swap Transaction, the City will pay to the counterparty a fixed rate of 3.944% per annum and will receive from the counterparty a rate equal to the SIFMA Municipal Swap Index (formerly known as the BMA Municipal Swap Index). The effect of the 2007 Series A Swap Transaction is to fix synthetically the interest rate on the 2007 Series A Bonds at a rate of approximately 3.944% per annum. The City has designated the 2007 Series A Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution. .
- (7) The City has entered into two floating-to-fixed rate interest rate swap transactions (the "2008 Series B Swap Transactions") with respect to the Variable Rate Utilities System Revenue Bonds, 2008 Series B (the "2008 Series B Bonds"). The counterparties to the 2008 Series B Swap Transactions currently have a counterparty risk rating of "Aa3" from Moody's and a financial program rating of "A+" from S&P, and a counterparty risk rating of "Aa3" from Moody's and a

financial program rating of "A+" from S&P, respectively. The terms of the 2008 Series B Swap Transactions are identical to the term of the 2008 Series B Bonds, and the notional amount of the 2008 Series B Swap Transactions will amortize at the same times and in the same amounts as the 2008 Series B Bonds. The 2008 Series B Swap Transactions are subject to termination by the City or the counterparties at certain times and under certain conditions. During the terms of the 2008 Series B Swap Transactions, the City will pay to the counterparties a fixed rate of 4.229% per annum and will receive from the counterparties a rate equal to the SIFMA Municipal Swap Index (formerly known as the BMA Municipal Swap Index). The effect of the 2008 Series B Swap Transactions is to fix synthetically the interest rate on the 2008 Series B Bonds at a rate of approximately 4.229% per annum. The City has designated each of the 2008 Series B Swap Transactions as a "Qualified Hedging Transaction" within the meaning of the Resolution. .

(8) The interest rates to be borne by the 2012 Series B Bonds are hedged, in part, by the 2005 Series C Swap Transaction and the 2006 Series A Swap Transaction. See notes (3) and (4) above.

(9) The City has entered into a floating-to-fixed rate interest rate swap transaction (the "Series C CP Notes Swap Transaction") with respect to a portion of the Series C CP Notes. The counterparty to the Series C CP Notes Swap Transaction currently has a counterparty risk rating of "A" from Fitch Ratings ("Fitch"), "Baa1" from Moody's and "BBB+" from S&P. The term of the Series C CP Notes Swap Transaction is identical to the expected final maturity date of the Series C CP Notes, and the notional amount of the Series C CP Notes Swap Transaction will amortize at the same times and in the same amounts as the Series C CP Notes related to the swap are expected to be amortized. The Series C CP Notes Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the Series C CP Notes Swap Transaction, the City will pay to the counterparty a fixed rate of 4.10% per annum and will receive from the counterparty a rate equal to the SIFMA Municipal Swap Index (formerly known as the BMA Municipal Swap Index). The effect of the Series C CP Notes Swap Transaction is to fix synthetically the interest rate on a portion of the Series C CP Notes at a rate of approximately 4.10% per annum. The City has not designated the Series C CP Notes Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution. All amounts owed by the City under the Series C CP Notes Swap Transaction are payable from amounts remaining on deposit in the Revenue Fund established pursuant to the Resolution following the payment of, among other things, Operation and Maintenance Expenses, debt service on the Bonds, debt service on Subordinated Indebtedness and required deposits to the Utilities Plant Improvement Fund established pursuant to the Resolution.

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

(11) The 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.