ANNUAL REPORT TO BONDHOLDERS

CITY OF TALLAHASSEE

February 2008

City of Tallahassee
Elected Officials

John R. Marks, III
MAYOR

Allan J. Katz
MAYOR PRO TEM - COMMISSIONER

Andrew D. Gillum
COMMISSIONER

Debbie Lightsey
COMMISSIONER

Mark Mustian
COMMISSIONER

Administration

Anita Favors Thompson
CITY MANAGER

Gary Herndon
CITY TREASURER-CLERK

James R. English
CITY ATTORNEY

Sam McCall
CITY AUDITOR

Bond Counsel
Bryant, Miller and Olive, P.A.
Tallahassee, Florida

Financial Advisor
Public Financial Management
Orlando, Florida

PURPOSE OF THE ANNUAL REPORT TO BONDHOLDERS

The 2008 Annual Report to Bondholders has been prepared by the City of Tallahassee to provide information concerning the City, its financial operations and its indebtedness. This information is made available to current security holders and potential purchasers of securities in the secondary market, dealers, security analysts, rating agencies, Nationally Recognized Municipal Securities Information Repositories (NRMSIRs), and other interested parties. The City of Tallahassee has selected DAC as the City's disclosure/dissemination agent. This 2008 Annual Report to Bondholders can be found on the DAC website at www.dacbond.com. The DAC website also hosts related City documents including official statements for outstanding debt.

In addition to this Report, each fiscal year the City of Tallahassee prepares a Comprehensive Annual Financial Report (CAFR), which includes audited financial statements in accordance with generally accepted accounting principles. This document is available from the City upon request. The CAFR is also hosted on the City's website at www.talgov.com, as well as on the DAC site. The current auditors for the City are Carr, Riggs and Ingram, L.L.C., Tallahassee, Florida.

In compliance with SEC rule 15c2-12, the City has entered into undertakings to provide secondary market information in connection with the following bond issues:

- $203,230,000 Energy System Revenue Bonds, Series 2007, dated August 9, 2007.
- $128,920,000 Energy System Revenue Bonds, Series 2005, dated October 1, 2005.
- $17,680,000 Energy System Refunding Revenue Bonds, Series 2001, dated May 1, 2001.
- $143,800,000 Energy System Refunding Revenue Bonds, Series 1998A, dated November 1, 1998.
- $49,220,000 Energy System Revenue Bonds, Series 1998B, dated November 1, 1998.
- $7,355,000 Airport System Revenue Refunding Bonds, Series 2004, dated August 10, 2004.
- $86,210,000 Capital Bonds, Series 2004, dated November 17, 2004.
- $15,360,000 Capital Refunding Bonds, Series 2001, dated October 15, 2001
- $164,460,000 Consolidated Utility System Revenue Bonds, Series 2007, dated November 8, 2007.
- $36,110,000 Consolidated Utility System Refunding Revenue Bonds, Series 2005, dated July 14, 2005.
- $23,900,000 Consolidated Utility System Refunding Revenue Bonds, Series 2001, dated May 1, 2001.

The release of this report satisfies, in the City's opinion, the requirements for annual disclosure as set forth in the undertakings. The City is committed to fulfilling its disclosure obligations, as now or as may hereafter, defined by the SEC. While the City is committed to the release of secondary market information necessary to evaluate the City's credit, the City is making no on-going commitment to the publication and release of future Reports to Bondholders and in the future its disclosure obligations may be met through supplements or enhancements to its Comprehensive Annual Financial Report or through the release of other documents.

The City has not undertaken an independent review or investigation to determine the accuracy of information that has been obtained from other sources. Certain information presented herein has been obtained from sources that are believed by the City to be reliable, but neither the City nor the elected or appointed officials make any representations or warranties with respect to the accuracy or completeness of that information.

Additionally, to the extent that certain portions of the Annual Report constitute summaries of documents, reports, resolutions, or other agreements relating to the operations or outstanding debt of the City, this Report is qualified by reference to each such document, report, resolution, or agreement, copies of which may be obtained from the Office of the City Treasurer-Clerk. The Report contains certain capitalized undefined terms. Such terms are defined in the resolutions of the City authorizing the issuance of the respective bonds of the City.

The City encourages readers of the report to provide suggestions that will improve the readability or usefulness of the report. Questions concerning the information contained herein or suggestions should be directed to:

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EXECUTIVE SUMMARY

The City's Annual Report to Bondholders is designed to provide a reader, with no prior background, general information regarding the City and its debt. For those readers who regularly follow the City, much of the information contained herein may be repetitive. To assist those readers, the most significant changes since last year's report are highlighted below. Readers are encouraged to read the report in its entirety even though the City, by means of this executive summary, identifies only those events that it believes to be the most important that have occurred since the publication of the 2007 Annual Report to Bondholders.

Rate Increases

On March 29, 2006, based upon a rate study dated March 1, 2006, the City Commission approved certain electric rate increases through October 1, 2007 to recover the total projected revenue requirements through September 30, 2008.

On March 12, 2008, the City Commission approved rate increases for the water, sewer, and gas utilities. The increases are expected to receive final approval at a March 26, 2008 public hearing. Scheduled increases are as follows:

System	Effective Date	Amount
Sewer	4/1/08	15%
Sewer	1/1/09	14%
Sewer	4/1/10	14%
Water	1/1/09	12.9%
Water	10/1/10	11.0%
Gas	4/1/08	4.1%
Gas	10/1/09	2.2%

The Commission has also approved annual adjustment of rates based on the Consumer Price Index. The inflationary adjustments for each utility begin after the last scheduled increase.

Property Taxes and other Factors that may Impact the City's Financial Position

The City's millage rate of 3.7 mills was the lowest of the ten largest cities in Florida for 2006 and 2007. The City's millage rate for FY 2008 was rolled back to 3.17 mills as a result of property tax reform enacted by the Florida Legislature in 2007. The impact to the City's general fund for FY 2008 as a result of property tax reforms was a loss in ad-valorem revenue of $3.8 million.

Due to reduced revenues from State-shared sources, including state revenue sharing and the half-cent sales tax, and due to decreased revenue from permitting and other revenues, the general fund is projected to have a $2.5 million deficit in FY 2008. The City Commission has taken action to reduce expenditures to prevent the projected loss. Steps taken include elimination of positions, reducing funding for the OPEB liability, reduction of funding of certain capital projects, and freezing operating expense accounts by 5%.

On January 29, 2008, a constitutional amendment implementing additional homestead and business exemptions, business caps on assessed value increases, and portability of certain homestead exemptions was approved by the voters. The City anticipates further property tax reform during the 2008 legislative session or by referendum from the Taxation and Budget Reform Committee. The impact of these changes, combined with other revenue reductions results in a projected general fund deficit for FY 2009 of $9 million. In response, Staff and the City Commission have recently begun evaluating options; however, no specific decisions have been made at this time.

Monoline Insurers

In recent months, there has been significant scrutiny and analysis of monoline insurers who guarantee debt issued by the City of Tallahassee and others. This increased attention has resulted in reviews of the insurers by various rating agencies – followed by downgrades for some insurers. Among the monoline firms, Ambac, FGIC, MBIA, and FSA insure one or more City of Tallahassee issues. At the time of this writing and of the firms guaranteeing Tallahassee debt, only Ambac and FGIC have been downgraded by one or more of the rating agencies. The table below identifies specific insurers for Tallahassee's outstanding bonds.

City of Tallahassee
Current Outstanding Bonds

Issue	Par Amount	Insurer
2007 CUS	$164,460,000	N/A
2005 CUS	$ 36,100,000	Ambac
2001 CUS	$ 23,900,000	FGIC
2007 Energy	$203,230,000	MBIA
2005 Energy	$128,920,000	MBIA
2001 Energy	$ 17,680,000	Ambac
1998 A Energy	$143,800,000	FSA, Ambac
1998 B Energy	$ 49,220,000	FSA
2004 Airport	$ 7,355,000	Ambac
2004 Capital	$ 86,210,000	FSA
2001 Capital	$ 15,360,000	FGIC
2003 Blueprint 2000	$ 70,000,000	FSA
2007 Blueprint 2007	$ 75,285,000	MBIA

2007 Energy System Bonds

On July 11, 2007, the City Commission authorized staff to move forward with the issuance of not to exceed $240,000,000 Energy System Bonds. The City then sold $203,230,000 Energy System Revenue Bonds, Series 2007, on August 9, 2007. The purpose of the bonds was to fund a variety of capital improvements. The single largest of these improvements was the conversion of the City's Hopkins Unit No. 2 power plant from a 230 MW conventional dual fueled steam generating unit to a 296 MW dual fueled combined cycle generating unit.

Wastewater Operation Permits

In March 2006, Operation Permits proposed by the DEP were challenged by third parties ("petitioners") on the alleged basis that the permits did not provide for the adequate protection of water quality. The City and the petitioners executed a Settlement Agreement on December 18, 2006 (the "Settlement Agreement"). The major provisions of the Settlement Agreement included significant upgrades at the City's two treatment plants. In May 2007, the City submitted amended operating permit applications that incorporated the provisions of the Settlement Agreement. DEP subsequently issued the final permits on January 29, 2008, for both the LBR and TPS Treatment Plants with a renewal period of five years for each plant. During the amended permitting process, the City has moved forward to develop the Capital Improvement Program (CIP) to meet the anticipated permit requirements for the advanced wastewater treatment upgrades.

2007 Consolidated Utility System Bonds

On October 24, 2007, the City Commission authorized staff to move forward with the issuance of not to exceed $175,000,000 Consolidated Utility System Revenue Bonds. The City then sold $164,460,000 Consolidated Utility System Revenue Bonds, Series 2007, on November 8, 2007. The purpose of the bonds was to fund a variety of capital projects. The most significant of these projects is the design and construction of significant upgrades to the City's primary wastewater treatment plants as discussed in Wastewater Operation Permits above.

Ratings

In connection with the City's issuance of Energy System debt in 2007, ratings were obtained from Standard and Poor's, Fitch and Moody's. Previous ratings for the Energy System were affirmed with the exception of a decision by Moody's to upgrade it's rating to Aa3. Following this decision, the three firms rate Tallahassee's Energy System debt as AA-/AA-/Aa3.

In connection with the City's issuance of Consolidated Utility System debt in 2007, ratings were obtained from Standard and Poor's, Fitch and Moody's. Previous ratings for the Consolidated Utility System were affirmed with the exception of a decision by Fitch to lower it's rating to AA. Following this decision, the three firms rate Tallahassee's Consolidated Utility System debt as AA/AA/Aa2.

Energy System Integrated Resource Planning (IRP)

The City concluded an extensive IRP process in December 2006 with adoption of a five-year resource plan which included: repowering Hopkins Unit No. 2, continued participation in the Taylor Energy Center (TEC) permitting process, an aggressive DSM plan that targets 59 MW of demand saving by 2012, a renewable energy purchase from BG&E, and continued monitoring and evaluation of resource alternatives and regulatory trends. In July 2007, the City and its partners cancelled the Taylor Energy Center project; however, the adoption of the five-year resource plan has allowed the City to continue to participate in the dynamic changes in the industry and be flexible in addressing those future power supply requirements, while still addressing the identified goals. The repowering of Hopkins Unit No. 2 is the major project funded by the Energy System Bonds issued in 2007.

Taylor Energy Center (TEC)

The City held a referendum on November 17, 2005 concerning the City's participation in the TEC. The results of the referendum supported the City's participation in a new coal-fueled steam electric generating station. In July 2007, the City and its partners cancelled the Taylor Energy Center project. Though the TEC project was cancelled, successful implementation of the remaining components of the five-year resource plan will ensure sufficient generating capacity through 2015.

Smart Metering

On March 28, 2007, the City Commission gave approval to proceed with the City Utilities' advanced metering project (Smart Metering), and to negotiate with Honeywell to provide contract management services for deployment. Smart Metering will provide utility customers access to their consumption data (electric, gas and water) via an in-home display unit and the Internet so that customers can monitor their energy consumption and manage their usage preferences through technology that will automatically control appliances in response to changes in price.

On December 4, 2007, the City Commission authorized a capital lease to provide financing for up to $36 million to fund the Smart Metering Program. Funds will be advanced to the City over an 18-month construction period, after which principal and interest will be paid over 15-years.

Sunshine State Governmental Financing Commission (SSGFC)

The Sunshine State Governmental Financing Commission (SSGFC or the Commission) was created in 1985 through interlocal agreement between the City of Tallahassee and the City of Orlando, Florida. Subsequently, other Florida governments joined the Commission, including 11 additional cities and three counties. The Commission was created to provide large, sophisticated governments the opportunity to work together to create low cost, flexible financing instruments. The City has approximately $90 million in variable rate debt outstanding under the program.

The Commission is currently dealing with its exposure to the troubled bond insurance companies on several different fronts in both its Series 1986 Revenue Bond Program and its Multiple Series Commercial Paper Note Program. This exposure has caused higher than normal rates for participants and some difficulties in the remarketing of debt under each program, with the most significant difficulty being remarketing failures by one of its remarketing agents in both programs.

For those obligations insured by Ambac Assurance Corporation, the Commission's board of directors has authorized the replacement of Ambac with a direct pay letter of credit with Dexia Credit Local (the current liquidity provider) to allow the trading of the Series 1986 revenue bonds to return to more normal short-term variable rate levels. The exact timing for the completion of the program restructuring is unknown at this time; however, this transaction is planned for completion by April 30, 2008.

The City will continue to monitor its debt under the SSGFC program, including evaluation of the expected agreement described above. The City will also monitor market impacts on the variable interest rate paid by the City under SSGFC obligations.

Florida State Board of Administration

For many years, the City utilized a Local Government Investment Pool administered by the State of Florida Board of Administration (SBA) to provide an investment option for our short-term cash needs. Over the years, the SBA pool provided the City with a secure investment option that paid a very competitive interest rate for our short-term investments. In late 2007, several of the pool's commercial paper investments were downgraded, and numerous questions were raised about the quality of other securities in the pool. In response, Tallahassee removed all City funds from the SBA's Investment Pool in November 2007. As a result, the City was not negatively impacted on November 29, 2007 when the Governor and Cabinet voted to freeze all funds in the pool.

General Fund Transfer

Since FY 2005, the base for Electric Fund transfers has been set at an amount comparable to 8.3 mills of kilowatt hour (kWh) retail sales. Accordingly, the annual transfers vary with changes in retail sales of electricity. The transfer levels of water, sewer, and solid waste have been set as a percentage of the prior three-year average of gross system revenues for each utility. The percentages for water, sewer, and solid waste are 20%, 4.5% and .0075%, respectively. The transfer for the gas has been set at an annual amount of $2,323,000.

Blueprint 2000

A local option one-cent sales tax has been in effect since November 1989 to provide funding for transportation projects and law enforcement facility improvements. This local option tax has been extended until 2019. Beginning in December 2004, these taxes have been allocated 80% to Blueprint 2000 projects and 10% each to City of Tallahassee and Leon County projects. Blueprint 2000 is an intergovernmental agency formed to meet infrastructure and natural resource management needs that affect both Leon County and City of Tallahassee. Future uses include: critically needed community initiatives including stormwater projects, green space acquisitions, park and other recreation improvements, and other transportation projects. In 2007, Blueprint 2000 issued $75,285,000 of bonds supported by the Blueprint 2000 share of the one-cent sales tax.

Electronic Dissemination of Information

As part of its continuing effort to efficiently provide continuing disclosure information to investors and other users, the City of Tallahassee has begun to make use of electronic methods for dissemination of information. Information is available at several locations, including the City's website, www.talgov.com and **www.dacbond.com** the website of DAC.

Talgov.com

The September 30, 2007 Comprehensive Annual Financial Report (CAFR), which includes audited financial statements in accordance with generally accepted accounting principles, is available on the City's website at **www.talgov.com**. The website also has other useful information available, including the City's budget for FY 2008.

DAC

The DAC website hosts a variety of debt information. DAC acts as a disclosure dissemination agent for issuers of municipal bonds by electronically posting information on behalf of issuers. Investors and others may access disclosure on any municipal bond in the DAC System free of charge by registering for a password. In addition to the City's 2008 report, annual reports from the past several years are available on the DAC site. Official statements for each of the outstanding issues summarized in this annual report are also posted. Information also includes multiples years' CAFR's.

If you are new to the DAC System, please click *Register* in the "DAC for Investors" section on the home page, complete the registration form and submit. You can set Event Filters for your account by logging into the DAC System and clicking the *Profile* icon to receive email notification whenever something new is filed by the City. You may search by CUSIP number, obligor, issuer, issue description, bond type, city and state, county and state, or by state only. Once the issue(s) searched are located you can customize your portfolio by checking the corresponding box and clicking *Add Checked Items to Portfolio*.

Contact

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THE CITY OF TALLAHASSEE

General

Tallahassee, the capital city of Florida, was incorporated in 1825, 20 years before Florida was admitted to the Union. The City is governed by a Mayor and four Commissioners elected at-large. The City Commission appoints the City Manager, the City Treasurer-Clerk, the City Attorney and the City Auditor. Collectively, the appointed officials are responsible for all administrative aspects of the government, with most falling under the purview of the City Manager.

The City provides a full range of municipal services. These services include public safety (police and fire), construction and maintenance of streets and sidewalks, stormwater management, recreation, planning and zoning, general administrative services, five utilities (electric, gas, water, sewer and solid waste collection), a mass transit bus system and a regional airport.

The economy of Tallahassee is strongly oriented toward governmental and educational activities. The presence of the State Capitol, two major universities, and a large community college help to shape Leon County's population as relatively young, well educated and affluent.

Population and Employment

The 2006 American Community Survey results show a racially diverse community with minorities accounting for 42.7% of the population, African-Americans comprising 36% of the City of Tallahassee. The population is young with a median age of 27.3. City of Tallahassee residents have historically attained a very high level of education. According to the 2006 American Community Survey, 44.9% of City residents age 25 or older have a bachelor's degree or higher compared to 25.3% for the state on average. The 2006 median family income in the City is $57,792 and is in line with the national median. In the City of Tallahassee, 43% of workers are in management or professional occupations compared to 34% nationally.

The level of governmental employment has a stabilizing effect on the economy and helps to keep unemployment down. Of the workforce, 3.3% were unemployed in November 2007 in the City of Tallahassee as compared to the State's unemployment rate of 4.2%. The percentage of employees employed by local, state and federal government in the Tallahassee MSA is approximately 35% of the workforce. In addition, due to governmental employment, which calls for large numbers of professional and white-collar employees, Tallahassee and Leon County enjoy relatively high-income levels, especially when compared to surrounding counties. According to population estimates by the University of Florida's Bureau of Economic and Business Research, Tallahassee's population has increased by 25,805 people since the 2000 Census (2.3% per year on average). Population growth trends are presented in the following table:

POPULATION GROWTH

Year	Tallahassee	Unincorporated	Leon County
1950	27,237	24,353	51,590
1960	48,174	26,051	74,225
1970	71,897	31,150	103,047
1980	81,548	67,107	148,655
1990	124,773	67,720	192,493
2000	150,624	88,828	239,452
2007 estimated	176,429	96,467	272,896
2010 projected	192,100	105,200	297,200
2020 projected	201,800	110,600	312,400
2030 projected	220,000	125,300	353,200

Recognizing the need to diversify the area's economy, the local government and the Chamber of Commerce are working closely together in concentrated effort to attract additional employers to the area and to assist the expansion of existing local industries. The Economic Development Council of Tallahassee/Leon County markets Tallahassee's economic advantages – research and high technology, healthcare providers and human resources – focusing on companies in financial services, education, technology, light manufacturing, distribution and healthcare.

The City's employment base has provided its citizens with an economic environment, which historically has been insulated from national economic trends. As a result, the City and Leon County have been able to maintain an unemployment rate substantially below the State of Florida and United States averages as shown in the table below:

Average Annual Unemployment Rate

Year	Leon County	Florida	United States
1998	2.9	4.5	4.5
1999	2.6	4.0	4.2
2000	3.0	3.8	4.0
2001	3.5	4.7	4.7
2002	4.4	5.7	5.8
2003	4.1	5.3	6.0
2004	3.8	4.7	5.5
2005	3.3	3.8	5.1
2006	2.7	4.7	5.0
2007	3.3	4.4	4.8

Source: Florida Agency for Workforce Innovation, Labor Market Statistics, Local Area Unemployment Statistics.

Trade and Service Area

As the largest city in north-central Florida, Tallahassee has naturally assumed the role as a regional trade center. Located just 20 miles south of the Georgia state line, this regional trading activity encompasses Leon County, as well as four south Georgia counties and eight surrounding north Florida counties. Tallahassee has over 40 shopping centers, and retail sales within Leon County account for over 63% of the retail sales made in the 13-county region. The retail and wholesale trade industry are an important aspect of the economy of the Tallahassee MSA, providing almost 13% of the employment with the services industry providing another 35%.

Education

In addition to being the Capital, Tallahassee is the site of two major state universities and a regional community college. Total enrollment in these institutions is over 67,000 students.

The largest and oldest university in the City is Florida State University (FSU), which was founded in 1851, and is the home of the Florida State University Seminoles. During 2007, an estimated 41,000 attended its undergraduate and graduate colleges, schools, and divisions. FSU is nationally known for its outstanding programs in natural sciences, fine arts, business, law, and education. A medical school was created in 2000 with its first students admitted in 2001. Eventually, 400 students will be enrolled in the College of Medicine.

A second nationally known university in Tallahassee is the Florida Agricultural and Mechanical University (FAMU), which was founded in 1887 and is the home of the FAMU Rattlers. FAMU offers extensive undergraduate and graduate courses to nearly 12,000 students. Programs offered at FAMU complement those at FSU and have received recognition in the fields of architecture, agriculture and pharmacy. Both universities offer programs leading to doctorate degrees.

Tallahassee Community College (TCC) presently serves approximately 15,000 students. TCC offers the same curriculum for college credit as that offered at the universities for the first two years. Associate degrees are awarded in over 30 fields, some through special cooperative programs with the local universities. TCC formed the first University Partnership with Flagler College (Flagler) in the Fall of 2000, and has since partnered with Embry Riddle Aeronautical University in 2001, Barry University in 2003 and St. Leo University in 2006. TCC students can pursue bachelor and graduate degrees on TCC's campus through the programs of its four University Partners.

GENERAL GOVERNMENT

Property Taxes

Property taxes can significantly impact the citizen's perception of economic success. The City's millage rate of 3.7 mills was the lowest of the ten largest cities in Florida for 2007. Tallahassee's low millage rate should act as an incentive to economic growth and stability. Jacksonville was not included in the table below since it is a consolidated city with varying millage rates for different sections of the city. Property tax reform enacted by the Florida Legislature and voters will have an impact on general government funding as evidenced by reduced millage rates shown below for 2008.

			Millage Rates	
City	**2007 Population**	**2006**	**2007**	**2008**
Miami	395,434	8.50	8.37	7.30
Tampa	336,264	6.50	6.41	5.73
St. Petersburg	253,369	6.80	6.60	5.91
Hialeah	228,528	6.90	6.80	6.54
Orlando	228,765	5.70	5.70	4.93
Fort Lauderdale	179,971	5.10	4.81	4.12
Tallahassee	**176,429**	**3.70**	**3.70**	**3.17**
Hollywood	164,523	6.90	6.81	5.74
Pembroke Pines	152,888	4.60	4.60	3.89

Revenue Considerations

Property taxes, which provide 24% of governmental revenues, increased by $5.25 million in FY 2007 due to increases in taxable assessed values and new residential and commercial properties added. Revenues from grants and contributions comprise 13% of governmental revenues and increased by $416 thousand or 1.3% compared to the prior year. Revenues for business-type activities for FY 2007 were $536.5 million, an increase of $14.5 million compared to the prior year. Enterprise system capital needs in the City's water, sewer, and electric utilities accounted for much of this increase through charges for service.

Transfer Considerations

Annually, the City transfers funds from its utilities to the General Fund to support general government operations. The methodology for calculating the transfers from all the utilities has been consistent since changes in FY 2004. The base for Electric Fund transfers is set at an amount comparable to 8.3 mills of kilowatt hour (kWh) retail sales. Accordingly, the annual transfers will vary with changes in retail sales of electricity. The transfer levels for water, sewer, and solid waste are set as a percentage of the prior three-year average of gross system revenues for each utility. The percentages for water, sewer and solid waste are 20%, 4.5%, and 0.75%, respectively. The transfer from gas is a fixed amount that is not related to system sales. The transfer for FY 2007 was $2,300,000; this transfer will increase by 1% to $2,323,000 for FY 2008. Transfers from utilities to the General Fund totaled $32.5 million in FY 2007.

Expense Considerations

General Government expenses increased by $5.25 million in FY 2007, or 4% compared to the prior year. One portion of this includes increased fuel costs for departments including the City's transit service, StarMetro. A general employee salary enhancement of 5% accounts for the remainder of the additional expenses increase. Expenses for business-type activities for FY 2007 were $536.5 million in 2007, $14.5 million more than the prior year's expenses. Increases in expenses resulted from salary enhancements, inflation, and growth in the demand for services.

Economic and other Factors that may Impact the City's Financial Position

Funding for the City's governmental activities comes from property taxes and a limited number of permitted other taxes (sales, gasoline, utility services and telecommunications) and fees (occupational license, etc.). Some funding is also received from state-shared revenues and grants from state and federal governments and agencies.

General government tax and fee revenue have the potential to be impacted in the next few years. Property tax rollback and reduction is in place for FY 2008 - 2009 (see Table of Millage Rates on prior page), and a constitutional amendment implementing additional homestead and business exemptions, business caps on assessed value increases, and portability of certain homestead exemptions was approved by Florida voters in January 2008. The City anticipates further property tax reform during the 2008 legislative session, or by referendum from the Taxation and Budget Reform Committee.

Economic market corrections have the potential to further impact general government revenue sources. The State of Florida budget has been revised in FY 2007, and is awaiting balancing in FY 2008, based on lower than estimated sales tax receipts and deflation of the housing market. As property assessment follows behind the actual market trends, the City could be faced with declining assessed property values, property tax reform requiring further exemptions, and implementation of super-majority votes for all taxes and fees. The city is actively monitoring legislation and forecasting impacts to plan as events occur.

Revenues for the business-type activities and certain governmental activities (permitting, recreational programs, etc.) come from user fees or service charges. The consumption of the City's utilities is impacted by local weather patterns and the growth of new homes and businesses in the market. The cost of fuel is recovered from customers through cost recovery adjustments that are not part of base rates to customers.

The Electric Fund maintains a reserve account that has been used in the past to reduce the impact to electric customers of steep increases in the market price of fuel. The balance in this fund as of September 30, 2007, was approximately $89.4 million.

The City has long-term purchase contract obligations for the purchase of gas in the amount of $292 million and energy of $45 million. These contracts are managed by the City's Energy Services Department. These are based on forecast needs of our customers and expected prices in the market. These contracts help to assure an adequate supply and help to reduce the spikes that can occur with market prices. Revenues from future purchases by customers are expected to cover these obligations. The City also uses hedge instruments to minimize the risk of market energy price volatility and counter-party credit risk-related to the purchase of natural gas.

Fiscal Year 2008's Budget and Rates

The City is home to several state and federal offices in addition to two universities and a community college. These tax-free entities limit the taxable base to roughly 50% of the City's property value. The FY 2008 millage rate was rolled back based on Florida statutes to a 3.1686 millage rate. Estimates for property tax receipts beyond FY 2008 assume continued rollback or reform of the millage rate and thus no growth. Property taxes in future years could be significantly altered by possible further legislative activity and constitutional amendments related to property taxes. The City is monitoring this legislation and will adjust future years' budgets accordingly.

The City's Capital Budget is appropriated at $223 million with $20.3 million budgeted in the General Fund and $202.7 million in the Enterprise and Internal Service Funds. Some of the capital projects include funding for park and stormwater improvements and transportation projects as well as funding for the City's Neighborhood Infrastructure Program. The City has a five-year plan for capital improvements for all projects planned through FY 2012 that totals $1 billion with appropriations made on an annual basis.

Selected General Government Statistics

Pledged Revenues (in 000s)
City of Tallahassee, Capital Bonds

For Fiscal Years Ending September 30	2003	2004	2005	2006	2007
Communication Services Tax	$ 8,877	$ 8,717	$ 8,334	$ 8,226	$ 8,917
Half Cent Sales Tax	8,948	9,576	9,463	10,127	9,875
Guaranteed Entitlement	1,251	1,251	1,251	1,251	1,251
Total Revenue	$ 19,076	$ 19,544	$ 19,048	$ 19,604	$ 20,043
Debt Service	$ 1,880	$ 1,878	$ 6,267	$ 7,674	$ 7,676
Debt Service Coverage	**10.15x**	**10.41x**	**3.04x**	**2.55x**	**2.61x**

Property Tax Levies and Collections (in 000s)

Fiscal Year	Total Assessed Valuation	Taxable Assessed Valuation	Levy	Collection	% (1)
1998	9,900,598	4,884,574	14,700	14,153	96
1999	10,283,317	5,217,865	15,697	15,107	96
2000	10,653,603	5,558,879	16,775	16,081	96
2001	11,101,845	5,892,235	17,856	17,231	97
2002	11,718,893	6,335,214	18,927	18,172	96
2003	12,561,990	6,734,959	20,363	19,503	96
2004	13,321,051	7,370,184	24,988	24,053	96
2005	14,983,276	8,600,518	27,306	26,349	96
2006	17,643,758	10,083,178	31,875	30,191	95
2007	19,251,581	11,162,814	37,370	35,442	95

(1) Florida Statutes provide for a discount of up to 4% for early payment of ad-valorem taxes. All unpaid taxes become delinquent on April 1, and are sold at auction on June 1 of each year as tax certificates. The City, after all tax certificates are sold, has fully collected all ad-valorem tax revenues.

CAPITAL BONDS (GENERAL GOVERNMENT DEBT)
CITY OF TALLAHASSEE, FLORIDA
CONSOLIDATED DEBT SERVICE

Bond Year Ending October 1	Total	$86,210,000 Series 2004	$15,360,000 Series 2001
2008	$ 7,671,714	$ 5,796,204	$ 1,875,510
2009	7,671,664	5,794,554	1,877,110
2010	7,675,964	5,801,104	1,874,860
2011	7,675,054	5,795,554	1,879,500
2012	7,675,398	7,675,398	-
2013	7,674,060	7,674,060	-
2014	7,675,010	7,675,010	-
2015	7,673,260	7,673,260	-
2016	7,730,000	7,730,000	-
2017	7,675,000	7,675,000	-
2018	7,675,250	7,675,250	-
2019	7,672,500	7,672,500	-
2020	7,671,250	7,671,250	-
2021	7,675,750	7,675,750	-
2022	7,675,000	7,675,000	-
2023	7,673,500	7,673,500	-
2024	7,675,500	7,675,500	-
TOTALS	**$ 130,515,873**	**$ 123,008,893**	**$ 7,506,980**

$86,210,000
City of Tallahassee, Florida
Capital Bonds, Series 2004

Dated: December 7, 2004

Purpose

To finance and refinance the acquisition, construction and equipping of certain capital improvements.

Security

The Bonds are secured by a pledge of and lien on the City's Guaranteed Entitlement Revenues; the City's receipts from the Local Government Half-Cent Sales Tax; the proceeds from the City's Local Communications Services Tax; and earnings on the investment of all funds and accounts created under the Resolution except the Rebate Fund. The Bonds are secured on parity with the Capital Refunding Bonds, Series 2001.

Form

$86,210,000 Serial Bonds due October 1, 2024. The Bonds are book-entry-only and are not evidenced by physical bond certificates. Interest is payable semi-annually on each April 1 and October 1, commencing April 1, 2005.

Agents

Registrar:	US Bank, Jacksonville, Florida.
Paying Agent:	US Bank, Jacksonville, Florida.
Bond Counsel:	Bryant, Miller and Olive, P.A., Tallahassee, Florida.

Ratings

Moody's:	Aaa (A1 - underlying)
Fitch:	AAA (AA - underlying)

Call Provisions

Optional Redemption

The Series 2004 Bonds maturing on or prior to October 1, 2014 are not subject to optional redemption prior to maturity. The Series 2004 Bonds maturing after October 1, 2014 are subject to redemption prior to maturity at the option of the City, as a whole or in part at any time (if in part, the maturities and the principal amounts to be redeemed are to be determined by the City in its sole discretion) on or after October 1, 2014 at a redemption price of 100% of the principal amount of the Series 2004 Bonds to be redeemed, plus accrued interest to the date of redemption.

$86,210,000
CITY OF TALLAHASSEE, FLORIDA
CAPITAL BONDS, SERIES 2004

Summary of Remaining Debt Service Requirements

Bond Year Ending October 1	Interest Rate	Principal	Interest	Total
2008	2.750%	$ 2,060,000	$ 3,736,204	$ 5,796,204
2009	3.000%	2,115,000	3,679,554	5,794,554
2010	3.000%	2,185,000	3,616,104	5,801,104
2011	3.125%	2,245,000	3,550,554	5,795,554
2012	3.250%	4,195,000	3,480,398	7,675,398
2013	(1)	4,330,000	3,344,060	7,674,060
2014	5.000%	4,535,000	3,140,010	7,675,010
2015	3.850%	4,760,000	2,913,260	7,673,260
2016	5.000%	5,000,000	2,730,000	7,730,000
2017	5.000%	5,195,000	2,480,000	7,675,000
2018	5.000%	5,455,000	2,220,250	7,675,250
2019	5.000%	5,725,000	1,947,500	7,672,500
2020	5.000%	6,010,000	1,661,250	7,671,250
2021	5.000%	6,315,000	1,360,750	7,675,750
2022	5.000%	6,630,000	1,045,000	7,675,000
2023	5.000%	6,960,000	713,500	7,673,500
2024	5.000%	7,310,000	365,500	7,675,500
TOTALS		**$ 81,025,000**	**$ 41,983,893**	**$ 123,008,893**

(1) Bonds maturing 2013 are in two issues: $830,000 at 3.5% interest rate and $3,500,000 at 5% interest rate.

$15,360,000
City of Tallahassee, Florida
Capital Refunding Bonds, Series 2001

Dated: October 15, 2001

Purpose
To refund the City's outstanding Capital Bonds, Series 1993 A and 1993 B Bonds.

Security
The Bonds are secured by a pledge of and lien on the City's Guaranteed Entitlement Revenues; the City's receipts from the Local Government Half-Cent Sales Tax; the proceeds from the City's Local Communication Services Tax; and earnings on the investment of all funds and accounts created under the Resolution except the Rebate Fund. The Bonds are secured on parity with the Capital Bonds, Series 2004.

Form
$15,360,000 Serial Bonds due October 1, 2011. The Bonds are book-entry-only and are not evidenced by physical bond certificates. Interest is payable semi-annually on each April 1 and October 1, commencing April 1, 2002.

Agents
Registrar:	US Bank, Jacksonville, Florida.
Paying Agent:	US Bank, Jacksonville, Florida.
Trustee:	US Bank, Jacksonville, Florida.
Bond Counsel:	Bryant, Miller and Olive, P.A., Tallahassee, Florida.

Ratings
Moody's:	Aaa (A1 - underlying)
Standard and Poors:	AAA (A+ - underlying)
Fitch:	AAA (AA - underlying)

Redemption Provisions
The Series 2001 Bonds are not subject to redemption prior to the stated maturity dates thereof.

$15,360,000
CITY OF TALLAHASSEE, FLORIDA
CAPITAL REFUNDING BONDS, SERIES 2001

Summary of Remaining Debt Service Requirements

Bond Year Ending October 1	Interest Rate	Principal	Interest	Total
2008	3.650%	$ 1,600,000	$ 275,510	$ 1,875,510
2009	3.750%	1,660,000	217,110	1,877,110
2010	3.800%	1,720,000	154,860	1,874,860
2011	5.000%	1,790,000	89,500	1,879,500
TOTALS		**$ 6,770,000**	**$ 736,980**	**$ 7,506,980**

ENERGY SYSTEM

The Energy System is the City's Electric and Gas Systems grouped together primarily for the purpose of debt financing. The 1992 General Resolution created the Energy System, which consisted solely at that time of the City's Electric System. The 1998 General Resolution allowed the City to add other utility functions to the Energy System upon making findings that the addition of such utility functions will not impair the ability of the City to comply with such resolutions, and will not materially adversely affect the rights of the Holders of the Prior Obligations and the Bonds, respectively. In 1999, pursuant to the provisions of the 1998 General Resolution, the City Commission approved migration of the City's Gas System from the Consolidated Utility System (CUS) to create the Combined Energy System, for financing purposes only.

Anticipated financing needs for the Energy System through 2011 are:

Issue	Amount	Projected Date
Electric System Revenue	$116,100,000	2009
Gas System Revenue	$ 7,000,000	2009
Electric System Revenue	$ 75,000,000	2011

Administration

The City has consolidated all of its utility operations under a single Assistant City Manager for Utilities Services. The Utility Services area consists of the Electric Utility, Water and Sewer Utility, Solid Waste Utility, Gas Utility and two support departments - Utility Business and Customer Services, and Energy Services. Each of the utility departments is responsible for operational aspects associated with its respective service areas. Utility Business and Customer Services and Energy Services provide support across the five utilities. Utility Business and Customer Services provides centralized support to all five operating utilities for services such as: billing, customer service, connect/disconnect, meter reading, safety and training, environmental, marketing, retail rate design, and utility locates/construction coordination. Energy Services provides administration of the City's Energy Risk Management Program, including: consolidated fuel management and acquisition services for the electric and gas utilities, fuel management and associated transportation services to other utilities on the open market, and the management of off-system purchases and sales of electric energy and capacity. In addition, Energy Services provides residential and commercial energy services, and account support and retail contracting functions. Other City departments provide other support activities such as: accounting, payroll, human resources, and fleet management. The cost of these services is allocated to the utility operating departments.

ENERGY SERVICES

The City's Energy Services Department (ESD) is comprised of two Divisions, the Wholesale Energy Services Division and the Retail Energy Services Division. The primary purpose of the Wholesale Energy Services Division is to manage the fuels and energy supply portfolios for the City's Energy System. Recently, focus has been placed on acquisition of energy from renewable resources. In response, ESD negotiated a power contract with Biomass Gas & Electric (BG&E) for the purchase of 38 MW of renewable biomass energy beginning in 2010 and Renewable Fuels Tallahassee (RFT) for the purchase of 35 MW of renewable energy also beginning in 2010. Both BG&E and RFT agreements are contingent upon leasing/locating a site for the plant, permitting, financing, construction and the ultimate operation of the plant. If these conditions and others are met, the City will purchase power from each qualifying party. ESD continues to pursue other alternative energy opportunities.

Beginning August 1, 2006 the City signed a 20-year agreement with the Tennessee Energy Acquisition Corporation (TEAC) to provide discounted natural gas supplies to the City. The agreement commits the City to purchase 4000 MMBtus of natural gas daily for a period of 20 years at a discount to the market estimated to be $0.45/dth. The discount is achieved through the use of a prepaid natural gas contract. This will result in savings to the customers of the electric and gas utilities of $657,000 annually or approximately $13 million dollars over the life of the contract. This supply will represent less than 10% of our current requirements for the Electric and Gas Utilities.

In addition to the traditional roles of fuels and energy acquisition for the utilities, ESD performs marketing and trading of electricity and natural gas in the wholesale market. Historically, acquisitions of natural gas supply involved primarily the utilization of fixed price long-term and short-term forward physical contracts for electricity and natural gas with various energy companies and other utilities. Due to the counter-party credit risk associated with the long-term contracts and diminishing creditworthiness of physical supply providers, the City began utilizing financial trade-based risk management tools in order to protect its customers against future adverse price movements. In 2002, the City Commission approved a formalized Energy Risk Management Program. Further, the City Commission established the Energy Risk Policy Committee (ERPC) for policy development and oversight purposes. The ERPC is comprised of the City's appointed officials and executive staff from the City's Utility, Financial, and Administrative units. In addition, the City Commission approved utilization of budgeted fuel and energy expense accounts for financial trades within the current fiscal year, and up to $20 million from the Electric Operating Reserve for financial trades 13 months into the future and beyond that are consistent with the approved policy, pre-established market risk tolerances, and the City's budgetary or utility rate objectives.

The City's Energy Risk Management Program identifies, measures, monitors, manages, controls, and reports the market-based financial risks of the organization on a regular basis. The program mainly focuses on the market and credit risks associated with the City's electric energy production and wholesale business activities. Under this program, ESD will adhere to the approved policy and will also continue operating under the following guidelines:

- Transactions obligating the City to liquidated damages are not offered;
- Non-performance liability for the City is limited to the transaction's revenue margin;
- Long-term firm transactions are coordinated and reviewed by an Electric and Gas Strategy Group and Energy Business Committee that includes: the Assistant City Manager for Utilities and representatives from Energy Services, Electric, and Gas Utilities; and
- Wholesale market trading partners' credit worthiness determination including trade limits, is performed by an independent consultant on a continuous basis.

In addition to natural gas supply, ESD also purchases fuel oil to hedge against volatile natural gas prices and provide back-up fuel supply in case of natural gas interruptions. Transportation for natural gas is arranged through long-term contracts with Florida Gas Transmission and Southern Natural. When available, ESD re-markets excess capacity in the secondary market to help reduce the City's total transportation costs. Oil is acquired mostly through short-term contracts and deliveries are made by barge or truck.

The ESD Retail Energy Services Division includes Energy Conservation/Customer Services and Marketing & Sales functions that are responsible for direct services to customers. Primary responsibilities of this division are outlined below:

- Energy assistance programs that provide home and business energy audits, investigations of high utility bills, financial assistance for energy efficiency improvements, and related customer services;
- Aggressive Demand Side Management (DSM) programs that promote reduced on-peak demand as well as energy efficiency improvements among residential and commercial electric customers. The program's five-year demand reduction goal is 59 MW;
- Gas Sales programs that promote the gas system's residential and non-residential customer growth as well as fuel switching to achieve electric DSM goals; and
- Customer Retention/Key Accounts programs that establish and maintains communication with high-use utility customers, including development and administration of long-term contracts.

THE ELECTRIC SYSTEM

The City owns, operates and maintains an electric generation, transmission and distribution system that presently supplies electric power and energy to 111,836 customers in a service area consisting of approximately 221 square miles located within Leon County and the City's municipal facilities in Wakulla County. During the fiscal year ending September 30, 2007, the City sold 2,727,377 MWh of electric energy to ultimate customers and 30,723 MWh to other utilities and received total operating revenues of approximately $338,712,818. Although the City continued to experience moderate growth in customers of 1.7% from 109,982 in FY 2006 to 111,836 in FY 2007, retail sales during FY 2007 were 2,727,377 MWh, a decrease of 1.1% over FY 2006. This slight decrease is attributable to moderate weather, customer energy awareness and efficiency. The City's ten-year forecasts project an average annual growth in customers of approximately 1.6% and an average annual growth in retail energy sales of 1.1% when including the forecasted impact of the City's aggressive energy efficiency and Demand Side Management program.

The current installed capacity at the Sam O. Purdom Generating Station (the Purdom Station) is 332 MW (winter rating). The current installed capacity at the Arvah B. Hopkins Generating Station is 452 MW (winter rating). The C.H. Corn Hydroelectric Plant (the C.H. Corn Station) consists of three generating units with a total capacity of 11 MW. In 1977, the City acquired a 1.3333% (11 MW) undivided ownership interest in Crystal River Unit No. 3 (CR-3), a nuclear plant operated and owned in part by Florida Power Corporation (now Progress Energy - Florida). The City transferred its ownership interest in CR-3 and the decommissioning trust account balance to Progress Energy Florida on October 1, 1999. The terms of the transfer included purchasing equivalent replacement electric capacity (11.4 MW) from Progress Energy Florida at a delivered price of $42 per MWh through December 31, 2007, escalating at CPI thereafter until 2016.

Management Discussion of Operations

During the last several years, the City has aggressively addressed positioning all phases of its electric utility infrastructure for the changing business requirements, environmental requirements, and customer needs. These efforts have included, but not been limited to, a new Energy Management System/Supervisory Control and Data Acquisition (EMS/SCADA) system, a new Outage Management System (OMS), conversion to solid state relays, new substation facilities, new transmission facilities and new gas turbine peaking generators. While many of these types of improvements are ongoing, including the initial phases of deployment of a comprehensive "Smart Metering Program", these initiatives have already improved system reliability, efficiency, and customer service.

In 2004 the City initiated an extensive Integrated Resource Planning (IRP) process to determine the best way to serve future power supply resource requirements and meet several strategic goals. The goals included fuel diversity, reliability, economics and the environment. The 2004 IRP lasted over 30 months and during that period the City Commission made a number of key decisions that provided the City the ability to conclude the process in December 2006 with adoption of a five-year resource plan which included: repowering Hopkins Unit No. 2, continued participation in the Taylor Energy Center (TEC) permitting process, an aggressive DSM plan that targets 59 MW of demand saving by 2012, a renewable energy purchase from BG&E; and continued monitoring and evaluation of resource alternatives and regulatory trends. In July 2007 the City and its partners cancelled the Taylor Energy Center project (as discussed later), however the adoption of the five-year resource plan has allowed the City to continue to participate in the dynamic changes in the industry and be flexible in addressing those future power supply requirements, while still addressing the identified goals.

Based on the decisions made by the Commission during the 2004 IRP process, key strengths of the City's power supply portfolio that address current concerns with climate change, while addressing near term resource requirements are:

- With the completion of the Hopkins Repowering in 2008, the weighted average age of 84% of the City's natural gas generating fleet will be three years and the weighted average heat rate of that portion of the natural gas generating fleet will be 7,700 btu/kwh;
- With the current power purchase agreements, in 2010 20% of the City's energy will be renewable;
- The City's Demand Side Management (DSM) program will delay the need for additional power supply resources to meet reserve margins until 2015;
- The DSM program will increase the City's load factor approximately 6% over a ten-year time frame; and
- The efficiency of the generating fleet, coupled with the Energy Risk Management Program; and the renewable resource contracts will provide competitive, environmentally responsible production costs.

In addition to these initiatives, the City continues to monitor changes in the electric utility industry to position itself for the various forms of restructuring. The electric base rate reduction strategy (1994 - 2001) and the accrual of operating reserves have positioned the City competitively while providing a great deal of flexibility, including the ability to defease existing indebtedness and directly fund certain capital projects that would otherwise be debt-financed. The Electric Operating Reserve had a balance of $85.2 million at September 30, 2007 with $20 million of this amount committed to supporting financial trades through the City's Energy Risk Management Program. While the City's residential base rates are among the lowest in Florida; the volatility of the fuels markets and the City's dependence on natural gas as a fuel for it generating units have continued to make fuels and energy risk management a key strategy to remaining competitive. The City continues to be an active participant in State and Federal legislative and regulatory activities related to electric industry restructuring, electric reliability, electric transmission facilities, climate change and financing issues that may have an impact on the City and its customers.

General Electric Long Term Services Agreement

In 1999, the City entered into a Long Term Services Agreement (LTSA) with General Electric International, Inc (GE) for Purdom Unit 8 (PP8). Under the terms of the PP8 LTSA, GE performs all of the scheduled preventative maintenance work on the City's Purdom Unit 8 combustion and steam turbine/generators for a fixed cost. The LTSA incorporates availability and heat rate guarantees, including liquidated damages and bonus provisions, for each of the six years. These damages and bonus provision are capped at $500,000 per year. The LTSA also provides for discounts for any additional parts or services needed outside the scope of the agreement and caps the rate of increase for these parts and services to published indices with an absolute cap of 7.5% per year. Entering into this agreement ensures the City that the required support and parts will be available for continued operation of Unit 8. The initial term of the LTSA was a period of 6 years or 48,000 fired operating hours. The LTSA term was subsequently extended to a period of 12 years or 96,000 fired hours, which will carry the preventative maintenance work through the second scheduled major inspection in currently scheduled for 2013.

With the repowering of Hopkins Unit 2 (HP2), the City has purchased another GE 7FA combustion turbine, similar to the PP8 combustion turbine/generator. The City entered into negotiations with GE to include the HP2 combustion turbine generator in the LTSA. The commercial negotiations have been completed on the LTSA modifications to include the HP2 combustion turbine and in April 2007, the City Commission authorized staff to finalize the contract modifications and execute a contract with GE for these modifications. This agreement is valued at $63.5 million (2007 dollars) over the term of the agreement.

The commercial agreement between the City and GE on the LTSA provides for the following major changes to the PP8 LTSA.

- Extends the PP8 term to 18 years or 114,000 fired hours (3rd major inspection);
- Adds the HP2 combustion turbine generator to the LTSA for a term of 12 years of 96,000 fired hours (2nd major inspection);
- Includes compressor and rotor coverage as "Planned Maintenance". This means GE is responsible for the planned maintenance on these components. (The prior PP8 LTSA has these items as extra work); and
- Includes provisions for GE to compensate the City up to $1 million per year per unit for compressor or rotor failures.

Future Power Supply Resources

The City recently completed an integrated resource planning (IRP) study to further refine its power supply options for the period 2006 - 2025. The 2004 IRP Study, supported by the consulting firm of Black & Veatch, built on the results of the City's 2002 IRP study and considered additional alternatives including, but not limited to, repowering existing resources, participation in solid-fuel projects in the region, construction of a solid fuel unit and building an expanded portfolio of demand-side measures to help the City meet its customers' demand for energy. In December 2006, based on a number of dynamic energy supply options that may evolve over the next few years, the City Commission adopted a five-year preferred resource plan covering the period 2007 - 2012 which includes: repowering Hopkins Unit 2, continued participation in the TEC permitting process, an aggressive DSM plan that targets 59 MW of demand saving by 2012, a renewable energy purchase from BG&E and continued monitoring and evaluation of resource alternatives and regulatory trends.

Since committing to this preferred resource plan in December 2006, there have been two significant changes to the plan. The first change is that permitting activities for TEC were suspended in July 2007 (the project has been cancelled). This change does not affect the City's need for additional resources, since the DSM portfolio is projected to delay the need for additional capacity until 2015. The second change involves a commitment by the City to a second renewable energy purchase from Renewable Fuels Tallahassee (RFT). This purchase is based on a proposed 35MW project using plasma torch technology with municipal solid waste and other renewable sources as fuel. The purchase from RFT, like the one from BG&E, is an energy-only transaction and therefore has no impact on the City's capacity needs.

The City continues to monitor changing regulatory and legislative trends that could potentially impact the selection of future resources. The electric utility regularly evaluates the current resource plan for risk exposure, primarily through the use of sensitivity cases that are analyzed to determine if the resource plan is sufficiently robust to remain stable (reliable service at the lowest cost) for variations in key assumptions. While there are several assumptions that are routinely tested in the resource planning process (such as load growth and fuel prices), there are three significant areas of uncertainty that represent potential near-term risk to the City: climate change legislation, adoption of Renewable Portfolio Standards (RPS), and the evolving mandatory reliability standards framework. During FY 2008 the City will be conducting planning studies to identify the impact of these emerging issues on the proposed resource plan.

In October of 2005, the City Commission approved the first phase of the Hopkins Unit 2 (HP2) repowering to convert HP2 from a 230 MW conventional steam generating unit to a 296 MW combined cycle generating unit. This conversion will be accomplished by installing a new General Electric 7FA combustion turbine/generator and a Nooter/Eriksen heat recovery steam generator. The existing HP2 boiler and auxiliaries will be retired and the steam turbine/generator and auxiliaries will be reused. This decision to move forward with this project was based on the fuel savings associated with the ~30% improvement in unit net heat rate (efficiency). The City has engaged Sargent & Lundy (S&L) as the City's design engineer for this project. S&L is performing the design engineering and technical specification development. S&L will also provide construction management and commissioning/start-up support to the City for this conversion. The City is procuring the major equipment including, but not limited to, the combustion turbine/generator/ heat recovery steam generator, boiler feed pumps and motors, main power transformer, iso-phase bus, and power distribution building and equipment. The City has engaged BE&K Construction Company as the HP2 repowering general work contractor. The contract with BE&K is a hybrid contract that contains a fixed price component, a cost reimbursable component for the materials and equipment, and a target work hour portion for the labor of installation. Under this hybrid contract, the City and BE&K share the cost risk associated with the uncertainties due to the current market conditions. All permits have been issued for the project and construction activities commenced in November of 2006. The construction activities have progressed well. BE&K is projecting that they will achieve the mechanical completion target of March 15, 2008. Two of the three conversion outages scheduled for Unit 2 have been completed. The third and final conversion outage is scheduled to commence February 8, 2008. The City is responsible for commissioning and start up. The current project schedule is targeting June 1, 2008 as the commercial operations date. The project is currently budgeted at $156 million.

Environmental

The City's Electric Utility operates under numerous state and federal environmental laws, rules and regulations. The United States Environmental Protection Agency (EPA) and the Florida Department of Environmental Protection (FDEP) are the main environmental regulatory agencies that the City interacts with on these laws, rules and regulations. All required air, water, solid, and hazardous waste, etc. permits, plans and environmental procedures are current and the Electric Utility is in compliance with these permits, plans, and procedures at this time.

In 2005 the EPA issued the final Clean Air Interstate Rule (CAIR). In June of 2006, the FDEP adopted the state implementation plan for CAIR. CAIR will reduce the amount of NOx and SO2 emissions in 2009 with a second reduction occurring in 2015. Under the CAIR rules, a NOx cap and trade program is being established, and in November 2007 the City was allocated 345 allowances by the EPA for the ozone season and 700 annual allowances under the initial allocation. As a result of the HP2 repowering project, the City believes that the initial NOx allowances will be sufficient to address the projected system NOx emissions following the 2009 implementation date.

In 2006, the EPA and FDEP issued the final Best Available Retrofit Technology (BART) rules as part of the overall Regional Haze Rulemaking Project. After computer modeling, regulatory analysis, and a review of the current electric generating units' retirement dates, it does not appear that any modifications or retrofits will be required as a result of the BART rules. However, at the current time, the City cannot address what impacts these rules will have on its operations. Based on modeling work that has been performed for the City, no modifications were identified, as required to achieve the BART requirements.

In 2007, the FDEP officially began developing rules aimed at regulating the emissions of greenhouse gases (GHG). No proposed rule language has yet been published, and therefore the City cannot address at this time what the impacts of these proposed regulations may have on City operations.

The City's operations are subject to continuing environmental regulation. Federal, State and local standards and procedures that regulate the environmental impact of the City's system are subject to change. These changes may arise from continuing legislative, regulatory, and judicial action regarding such standards and procedures. Consequently, there is no assurance that the units in operation, under construction, or contemplated will remain subject to the regulations currently in effect, will always be in compliance with future regulations or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in reduced operating levels or the complete shutdown of individual electric generating units not in compliance. The City cannot predict at this time whether any additional legislation or rules will be enacted that will affect the City's operations and, if such laws or rules are enacted, what the costs to the City might be in the future because of such action.

Electric Rates

Under existing Florida law, the City Commission has the exclusive authority to establish the level of electric rates. Rate level refers to the total amount of revenue to be recovered by the Electric System. The Florida PSC has jurisdiction over the City's rate structure. Rate structure addresses how the total revenue requirements are allocated to and recovered from the Electric System's various rate classes.

The City's current electric rates include a customer charge that varies by customer class, a demand charge (for large commercial customers), a non-fuel energy charge, and an Energy Cost Recovery Charge (ECRC). The ECRC is a pass-through charge that recovers the cost of fuel used in the City's power generating facilities, and the cost of wholesale power purchased from other utilities. The City reviews the actual over or under-recovery of these costs on a monthly basis, and modifies the ECRC charge, if required, on at least a semi-annual basis. All other rates are reviewed periodically for rate level sufficiency and rate structure.

Rates were last increased on October 1, 2007 by 2.7% following increases of 6.3% and 2.7% on April 1, 2006 and October 1, 2006, respectively. The current rates will be in place through September 2008 and are projected to be sufficient to recover expenses. Beginning on October 1, 2008, rates will be adjusted by the Consumer Price Index each October as provided for in Section 21-241 of the Tallahassee Code of Ordinances. Further, consistent with prior practice, routine rate reviews will be conducted to ensure rates are adequate to recover system revenue requirements.

While base rates remain low relative to other utilities in the state, the City continues to place emphasis on managing the cost of fuel and purchased power passed on to our customers through the ECRC. The City actively manages its fuel supply and energy supply portfolio to minimize the impact of natural gas price volatility and virtually eliminate counter-party credit risk by utilizing the City's Energy Risk Management Policy and Procedures that govern all trading activity. In addition to competitive base rates, the City also offers a Preferred Customer Electric Service Agreement to our largest customers, which further reduces their rates and ensures that they remain City customers in the long term.

Capital Improvement Program

The City, as part of its annual budget process, adopts a five-year capital improvement program for the Electric Utility. The first year of this program becomes an appropriation, and the remaining four years constitute a planning document, which identifies anticipated capital expenditures and the related funding sources. The approved program additions for FY 2008 are $79 million with the total five-year plan totaling $374 million. Funding sources include charges to customers, existing and future bond funds and deposits to the renewal and replacement fund. The FY 2008 budget includes $17 million for Smart Metering and $7 million for Demand Side Management and energy efficiency programs.

The Capital Improvement Program includes conceptual plans for the construction of two additional simple cycle combustion turbine (CT) units beginning the summer of 2009. The City estimates the direct construction costs of the two additional LM-6000 PC Sprint units and related transmission and fuel storage facilities to be about $74 million, or approximately $763 per kW. These CT units are included in the Capital Improvement Program to address electric transmission deficiencies in the southeast region of the City's service territory. If a less expensive solution is identified, the City expects that the lower cost alternative will be implemented.

Long Term Retail Electric Contracts

In the spring of 1999, the City developed a tariff for long-term contracting with all demand metered non-residential electric customers. The tariff, referred to as the "Preferred Customer Electric Service Agreement" (PCES), was approved by the City Commission on April 28, 1999 and by the Florida Public Service Commission on May 4, 1999. Under this Agreement, rate discounts are provided to the customer in return for a ten-year commitment from the customer to use the City as its electricity provider. The rate discounts are 5% for the General Service Demand (GSD) class of non-residential accounts and 7% for the General Service Large Demand (GSLD) accounts. Progress to date and relevant statistics associated with this initiative are as follows:

- Approximately 2,100 demand metered electric accounts are eligible. These accounts represent around 500 customers;
- Eligible customers comprise nearly 90% of the annual revenue from all non-residential classes on the City's electric system. About 50% of electric retail revenue comes from the non-residential classes; and
- Of the City's 20 Largest Electric Utility customers, 18 have executed PCES Agreements.

Transmission and Distribution

The City's existing transmission system includes approximately 187-circuit miles of transmission lines that are operated at voltages of 230 kV and 115 kV. The 115 kV transmission network forms a 115 kV loop that extends around and through the City limits. Eighteen substations, located at various sites, transform power from the transmission voltage of 115 kV to the distribution network voltage of 12.47 kV. The transmission, distribution, and generation facilities are monitored and controlled remotely from the City's Electric Control Center utilizing a communication network.

The City is interconnected with Progress Energy Florida at five locations on its system and with The Southern Company (Southern) and its operating affiliates at one location.

The City continues to expand its distribution, transmission and substation facilities to meet the system-load growth and reliability requirements.

The City continues to evaluate its transmission system to maintain the reliability of its grid and to ensure compliance with NERC standards. Recent contingency analysis has indicated that additional transmission facilities are needed in the future to address projected limitations related to the transfer of power from the west side of the system (Hopkins Plant) to loads on the east side. Several alternative transmission expansion plans are currently under review for the period 2009 - 2011 to address this limitation.

THE GAS SYSTEM

The City owns, operates, and manages a natural gas distribution system, which currently provides firm and interruptible gas service to 25,172 customers as of December 31, 2007 in and about the corporate limits of Tallahassee, Florida. The City of Tallahassee natural gas services have also been extended into the surrounding counties of Wakulla and Gadsden.

The Gas Utility management team is currently responsible for administration, engineering, and field operations of the City's Gas System activities, including dispatching and controlling the delivery of gas, maintaining above ground facilities and infrastructure, managing new facility construction, maintaining system maps, recording valve locations, ensuring operation of valves, and performing periodic leak surveys.

The Gas Utility currently has two pipeline suppliers, which are Southern Natural Gas and Florida Gas Transmission companies. The City Gas Utility operates four main gate stations that are strategically located about the inter-cooperated limits of Tallahassee, Florida. The Gas Utility has approximately 806 miles of main, and employs 40 full-time employees who maintain and operate the gas system. The Gas Utility annual system sales for FY 2007 were 2,315,126 Mcf, as well as, annual revenues exceeding $32.9 million, and the number of service connections were 26,348.

The City Gas Utility is a separately managed utility business unit, which operates within the administrative organizational teamwork structure that consist of the City's Electric, Gas, Water & Sewer, and Solid Waste Utilities, as well as, Utility Business and Customer Service divisional units, and the Gas Utility also encompasses various aspects of a combination utility for selective joint engineering projects, City Manager authorized organizational goals, as well as, fulfilling City Commission outlined objectives.

Management Discussion of Operations

In disclosure of our financial progress, gas system revenues for FY 2007 were $32,939,286. This is 19% lower than budgeted $40,743,174 and represents an actual decrease over the prior year collected of $33,228,858. This revenue decrease is primarily due to reductions in new service connections, sales revenue decreases, and revised sales growth declines statewide due to market and economic pressures in the housing and commercial industry sectors. Gas Utility operating expenses also slightly increased in FY 2007 from FY 2006 by $708,653. This increase is primarily due to inflationary cost, new regulatory program mandates, new marketing programs, technology improvements, facility, and infrastructure investments. The net effect is a moderate FY 2007 deficit, from which $2.3 million was successfully transferred to the City's general fund. The General Fund transfers are in accordance with the City's budgetary policy, and the Gas RR&I Fund transferal is also in accordance with the City's budget and financing policy.

As part of its annual budget process, the Gas Utility management team also develops a five-year capital improvement program totals $22,220,519 that consist of funding for high pressure system upgrade projects, gas system expansion projects, gas system relocation projects, gas meter service projects, and gas service tap projects. The majority of these projects are funded as master projects where subprojects can be issued as new development occurs during the fiscal year. This financial mechanism gives gas utility staff the flexibility to meet the developers tight deadline in receiving services and improves customer services. Almost 80% of the capital budget appropriations are geared towards system expansion, and the remaining 20% are allocated to upgrading the distribution system to enhance system integrity, as well as, to provide funding for alternative fuel initiatives, system automation, and smart metering initiatives. The first year of this financial program allocation becomes an appropriation and the remaining four years constitute a planning document that identifies anticipated capital expenditures and the associated funding sources for newly appropriate capital projects.

In response to our strategic plan during FY 2007, our gas utility added services to a few new restaurants, numerous single and multi-family subdivisions, and several new small business customers. The Gas Utility is also expanding new gas services in a new residential and commercial development of AIG Baker named Fallschase. The first phase of this development consists of a dozen restaurants, 750,000 square feet of big box stores such as Wal-Mart and Costco, and additional commercial residential units. Wal-Mart and Costco will each install new dessicant humidifier units, which are considered Gas-cooling loads. These newly installed units are also in compliance with the Electric Utility's Demand Side Programs (DMS) by reducing energy demand on their system. These aforementioned new customer additions will continue to improve the gas system's annual load curve and increase system throughput.

In response to our engineering applications, the Gas Utility recently updated its Supervisory Control Data Acquisition (SCADA) software in order to better manage its daily gas nomination from pipeline suppliers, and avoid related overage penalties. Furthermore, the Gas Utility improved its gas hydraulic modeling software through the use of the City's Geographic Information System (GIS). These improvements allowed the Gas Utility to design, upgrade, and install its facilities at the lowest cost, while still maintaining system reliability. The gas modeling software was useful in predicting possible problematic areas and bottlenecks, and minimizing system outages. As a result of these software upgrades, the department did not experience any outages or has not curtailed any of its interruptible customers during FY 2007.

Gas Rates

The Gas System's retail rate structure is much like that of the Electric System's and includes a base rate and a fuel recovery charge. The base rate is comprised of a fixed customer charge and a variable consumption charge. The base rate is designed to recover the operating expenses exclusive of fuel, plus scheduled transfers for debt service, renewal, replacement and investment, and a transfer to the City's general fund. The fuel recovery charge, officially called the Purchased Gas Recovery Charge (PGRC), is a pass-through recovery mechanism designed to recover fuel and other related costs on a dollar-for-dollar basis. The Gas Utility last base rate increase was in 1996, and since that timeframe the Gas Utility has historically maintained its operational financial goals via increased customer growth, system sales growth, as well as, by adjustments in fuel expenditures and prudently managing its operational and maintenance expenditures. The Gas Utility is now feeling upward economic pressures to increase its rates. The City began a system rate review in July 2007 with the assistance of its rate consultant R.W. Beck. Final results of the study are schedule to be presented to the City Commission in February 2008. Based on preliminary results, rate increases of 4% is expected to be implemented in April 2008 followed by an increase of 2% in October 2009. Additionally, it is expected that the City will adopt an annual CPI escalation clause for retail rates to be applied October 2010.

Selected Energy System Statistics

Electric System - Sales to Ultimate Customers, by Customer Class

For Fiscal Years Ending September 30	2003	2004	2005	2006 (1)	2007
Residential					
Average Annual Customers	86,377	87,160	88,788	91,490	93,258
Energy Sales (MWh)	1,049,062	1,062,416	1,071,278	1,115,569	1,093,440
Average Annual Use Per Customer (kWh)	12,145	12,189	12,066	12,193	11,725
Average Annual Revenue per Customer	**$ 1,225**	**$ 1,280**	**$ 1,244**	**$ 1,557**	**$ 1,627**
Commercial, Industrial and Interdepartmental					
Average Annual Customers	19,431	17,593	17,890	14,000	14,136
Energy Sales (MWh)	1,543,190	1,594,229	1,611,071	1,612,073	1,604,234
Average Annual Use Per Customer (kWh)	79,419	90,617	90,054	115,148	113,486
Average Annual Revenue Per Customer	**$ 5,628**	**$ 7,489**	**$ 7,275**	**$ 11,829**	**$ 12,745**
Public Street Lighting					
Average Annual Customers	431	334	341	4,493	4,443
Energy Sales (MWh)	14,765	16,338	15,959	30,650	29,704
Average Annual Use Per Customer (kWh)	34,258	37,388	46,802	6,822	6,686
Average Annual Revenue per Customer	**$ 2,602**	**$ 4,482**	**$ 4,197**	**$ 857**	**$ 935**
Total Sales to Ultimate Customers					
Average Annual Customers	106,239	105,087	107,019	109,983	111,836
Energy Sales (MWh)	2,607,017	2,672,983	2,698,308	2,758,292	2,727,377
Average Annual Use Per Customer (kWh)	**24,539**	**25,436**	**25,213**	**25,079**	**24,662**
Off System Sales					
Sales for Resale (MWh)	127,599	67,112	106,177	51,125	30,723
Total Sales (MWh)	**2,734,616**	**2,740,095**	**2,804,485**	**2,809,418**	**2,758,101**

Electric System - Selected Operating Costs and Ratios

For Fiscal Years Ending September 30	2003	2004	2005	2006	2007
Revenue per kWh					
Retail Customers	0.093	0.105	0.103	0.127	0.139
Commercial and Industrial Customers	0.071	0.083	0.081	0.203	0.112
Public Street Light	0.076	0.092	1.076	1.276	0.140
Expenses Per kWh					
Total Operating Expense per kWh	0.0589	0.0790	0.0811	0.1016	0.1021
Financial Ratios					
Debt to Total Assets	0.470	0.473	0.432	0.527	0.635
Operating Ratio	0.868	0.849	0.912	0.895	0.889
Current Ratio	3.460	2.824	2.883	4.029	4.202

(1) Beginning in FY 2006, outdoor lighting services, which previously were included in commercial and industrial services, were combined into a single lighting rate schedule with street light and traffic light services. This move accounts for the significant shift in statistics between the two categories when compared with prior years.

Electric System - General Statistics

For Fiscal Years Ending September 30	2003	2004	2005	2006	2007
Generating Capacity (MW) (Summer)	652	652	652	744	744
Capacity Purchases (MW) (Summer)	51	70	36	11	11
Net System Energy Generated (MW)	2,461,517	1,978,596	2,451,611	2,484,333	2,312,775
Net Peak Demand (MW) (Summer)	549	565	598	577	621
Net Peak Demand (MW) (Winter)	590	509	532	537	528
Average Residential Monthly Bill	$ 93.75	$ 115.27	$ 111.51	$ 140.50	$ 147.68
Number of Street Lights	16,143	16,466	16,682	16,812	17,168

Electric System - Summary of Projected Demand and Energy Requirements (MW)

For Fiscal Years Ending September 30	2008	2009	2010	2011	2012
Annual 60-Minute Peak Demand (1)					
Summer - MW	606	607	607	607	609
Winter - MW	554	561	565	569	576
Annual Energy Sales - GWh (2)	2,781	2,888	2,921	2,953	3,021
Sales to Talquin Customers Served by the City - GWH	29.29	29.93	30.56	31.20	31.84
Purchases from Talquin	18.48	18.88	19.28	19.68	20.09
Losses and Unaccounted for Energy - GWh	169.11	171.65	173.59	175.50	179.58
Annual Energy System Requirements - GWh	3,014	3,060	3,094	3,128	3,201
Annual System Load Factor (3)	56.78%	57.54%	58.19%	58.83%	62.23%

(1) Includes coincident demand of approximately 5 to 6 MWs for sales to Talquin.

(2) Includes the estimated reduction in sales of DSM (MWh) associated with conservation programs.

(3) Annual Energy Requirements divided by the product of 8,760 hours multiplied by the peak demand.

Gas System - Sales to Ultimate Customers, by Customer Class					
For Fiscal Years Ending September 30	2003	2004	2005	2006	2007
Residential (firm)					
Average No. of Customers	20,599	22,672	23,200	24,092	24,443
Usage (Mcf)	694,119	687,412	653,058	625,392	630,125
Average Sales Per Customer (Mcf)	34	30	28	26	26
Non-residential (firm)					
Average No. of Customers	1,327	1,634	1,630	1,645	1,671
Usage (Mcf)	1,413,690	1,315,914	1,450,904	1,524,897	1,534,875
Average Sales Per Customer (Mcf)	1,065	805	890	927	919
Interruptible					
Average No. of Customers	15	16	17	16	16
Usage (Mcf)	118,259	158,097	173,268	167,772	150,126
Average Sales Per Customer (Mcf)	7,884	9,881	10,192	10,486	9,383
Total Gas System					
Average No. of Customers	21,940	24,322	24,847	25,753	26,130
Usage (Mcf)	2,226,068	2,161,423	2,277,231	2,318,060	2,315,126
Average Sales Per Customer (Mcf)	101	89	92	90	89
Miles of Gas Lines	715	731	744	780	806
Heating Degree Days (HDD)	1,721	1,686	1,518	1,329	1,456

Gas System - Projected Sales Volumes in MCF*					
For Fiscal Years Ending September 30	2008	2009	2010	2011	2012
Residential	711,421	723,243	735,232	747,380	759,695
Commercial	716,891	719,924	722,964	726,011	729,065
Contract Interruptible	576,698	576,698	576,698	576,698	576,698
Small Interruptible	162,656	162,656	162,656	162,656	162,656
Flexible Interruptible	243,905	243,905	243,905	243,905	243,905
Total	2,411,571	2,426,426	2,441,455	2,456,650	2,472,019

*Forecast reflects normalized weather.

Electric System Ten Largest Retail Customers

Fiscal Year Ending September 30, 2007			Percent of Total Retail Sales	
Customers	***Revenue***	***kWh***	***Revenue***	***kWh***
Florida State University	$ 22,824,479	230,176,360	6.79%	8.44%
State of Florida	19,794,167	183,606,802	5.89%	6.73%
City of Tallahassee	11,177,530	97,444,208	3.33%	3.57%
Florida A & M University	6,243,235	61,926,095	1.86%	2.27%
Leon County School Board	6,293,642	52,782,131	1.87%	1.94%
Tallahassee Memorial HealthCare	4,625,999	46,212,923	1.38%	1.69%
Publix Markets	3,280,871	30,003,852	0.98%	1.10%
Federal Government	2,831,859	25,685,125	0.84%	0.94%
Leon County	2,740,911	25,485,430	0.82%	0.93%
Wal-Mart	2,499,997	23,022,386	0.74%	0.84%
TOTAL	$ 82,312,690	776,345,312	24.49%	28.46%

Gas System Five Largest Customers by Consumption

Fiscal Year Ending September 30, 2007			Percent of Total Retail Sales	
Customers	***Revenue***	***Gas Usage***	***Revenue***	***Gas Usage***
Florida State University	$ 3,960,280	4,057	12.40%	17.52%
Florida A & M University	2,134,567	2,117	6.69%	9.14%
Tallahassee Memorial HealthCare	1,322,840	1,460	4.14%	6.31%
Peavy & Son Construction Co.	752,395	768	2.36%	3.32%
State of Florida	823,745	619	2.58%	2.67%
TOTAL	$ 8,993,827	9,020	28.17%	38.96%

Electric Rates

	Current (1)
Residential	
Customer Charge - Single Phase Service	$6.00
Customer Charge - Three Phase Service	$21.00
Energy Charge per kWh	$0.05548
General Service Non - Demand	
Customer Charge - Single Phase Service	$7.50
Customer Charge - Three Phase Service	$27.50
Energy Charge per kWh	$0.04036
General Service Demand	
Customer Charge	$50.00
Demand Charge per kW	$9.25
Energy Charge-The first 500 kWh per kW	$0.01578
Excess kWh per kW @	$0.00221
General Service Large Demand	
Customer Charge	$50.00
Demand Charge per kW	$9.25
Energy Charge-The first 500 kWh per kW	$0.01538
Excess kWh per kW @	$0.00221

(1) A fuel and purchased power charge is also applied to all kWh sold.

Gas Rates

Monthly Rate:	
Customer Charge	$7.00
Residential Service Per Meter	$0.63
Nonresidential Service	$12.00
Interruptible Service:	
Small Interruptible Service	$150.00
Interruptible Service	$225.00
Large Interruptible Service	$225.00
Commodity Charge:	
Residential Service Per 100 Cubic Feet	$2.200
Nonresidential Service Per 100 Cubic Feet	$1.381
Interruptible Service: (Cents Per 100 cf)	
Small Interruptible Service	$0.2189
Interruptible Service	$0.1689
Large Interruptible Service	$0.0819

(1) A fuel charge is also applied to all 100 Cubic Feet sold.

Energy System Debt Service Coverage (in 000s) *

Fiscal Year Ended September 30	2003	2004	2005	2006	2007
Electric Operating Revenues					
Retail Sales	$ 207,238	$ 239,917	$ 248,149	$ 325,573	$ 331,365
Sales for Resale	9,609	6,504	7,821	6,278	3,591
Other Operating Revenues	8,578	7,344	16,427	5,585	11,180
Transfers (to) from	(3,000)	-	-	-	-
Total Electric Operating Revenues	222,425	253,765	272,397	337,436	346,136
Electric Operating Expenses					
Fuel	108,743	114,734	133,887	194,623	185,069
Purchased Power	20,597	42,102	33,652	28,801	34,289
Other	46,223	59,505	59,945	56,733	62,335
Total Electric Operating Expenses	175,563	216,341	227,484	280,157	281,693
Net Electric Revenues	46,862	37,424	44,913	57,279	64,443
Non-Operating Revenues:					
Other Income & Deductions	2,956	1,999	1,378	1,238	124
Total Net Electric Revenues	**49,818**	**39,423**	**46,291**	**58,517**	**64,567**
Gas Operating Revenues					
Total Gas Operating Revenues	23,287	26,486	29,112	32,964	32,334
Gas Operating Expenses	17,648	20,391	23,933	28,291	27,502
Net Gas Revenues	5,639	6,095	5,179	4,673	4,832
Non-Operating Revenues	-	-	141	247	315
Total Net Gas Revenues	**5,639**	**6,095**	**5,320**	**4,920**	**5,147**
Total Available for Debt Service	**$ 55,457**	**$ 45,518**	**$ 51,611**	**$ 63,437**	**$ 69,714**
Existing Debt Service	$ 21,493	$ 21,493	$ 21,490	$ 26,463	$ 28,692
Coverage	2.58x	2.12x	2.40x	2.40x	2.43x

ENERGY SYSTEM
CITY OF TALLAHASSEE, FLORIDA
CONSOLIDATED DEBT SERVICE

Bond Year Ending October 1	Total	$203,230,000 Series 2007	$128,920,000 Series 2005	$17,680,000 Series 2001	$143,800,000 Series 1998 A	$49,220,000 Series 1998 B
2008	$ 21,331,439	$ 12,363,600	$ 8,452,513	$ 1,544,120	$ 10,124,806	$ 1,210,000
2009	21,200,429	12,485,850	8,320,263	1,541,110	10,129,056	1,210,000
2010	21,333,428	12,361,250	8,454,763	1,545,690	10,122,975	1,210,000
2011	21,434,063	12,267,650	8,546,738	1,547,350	10,129,975	1,210,000
2012	21,329,700	12,364,150	8,448,050	1,540,850	10,130,800	1,210,000
2013	21,437,413	12,264,650	8,550,875	1,546,725	10,129,813	1,210,000
2014	21,430,938	12,268,400	8,545,425	1,544,025	10,131,488	1,210,000
2015	21,062,538	12,360,150	8,444,475	1,278,025	10,130,038	1,210,000
2016	21,108,438	12,270,150	8,545,475	1,228,025	10,124,938	1,210,000
2017	21,118,388	12,261,900	8,547,425	1,227,750	10,133,213	1,210,000
2018	21,114,588	12,266,150	8,546,175	1,234,750	10,123,663	1,210,000
2019	21,128,700	12,251,900	8,548,425	1,233,750	10,136,525	1,210,000
2020	19,890,563	12,249,650	8,550,425	-	10,130,138	1,210,000
2021	19,888,723	12,253,400	8,548,985	-	10,129,738	1,210,000
2022	19,890,035	12,252,400	8,545,660	-	10,134,375	1,210,000
2023	22,087,110	10,056,400	8,549,010	-	10,128,100	3,410,000
2024	23,751,185	8,379,650	8,545,510	-	10,125,675	5,080,000
2025	23,752,090	11,169,500	8,544,940	-	10,126,150	5,081,000
2026	23,754,825	11,750,000	8,544,250	-	10,128,575	5,082,000
2027	23,766,500	11,737,750	8,547,000	-	10,137,000	5,082,500
2028	23,755,750	11,745,500	8,546,500	-	10,127,250	5,082,000
2029	8,542,250	18,606,750	8,542,250	-	-	-
2030	8,543,750	18,603,250	8,543,750	-	-	-
2031	8,545,000	18,600,500	8,545,000	-	-	-
2032	8,550,250	19,362,000	8,550,250	-	-	-
2033	8,543,500	19,373,000	8,543,500	-	-	-
2034	8,544,500	19,367,500	8,544,500	-	-	-
2035	8,547,000	19,369,500	8,547,000	-	-	-
2036	-	20,241,750	-	-	-	-
2037	-	20,238,750	-	-	-	-
TOTALS	**$ 515,383,091**	**$ 423,143,050**	**$ 238,689,130**	**$ 17,012,170**	**$ 212,714,291**	**$ 46,967,500**

$203,230,000
CITY OF TALLAHASSEE, FLORIDA
Energy System Revenue Bonds, Series 2007
Dated: October 1, 2007

Purpose

To fund a portion of the costs of construction of certain capital improvements to the City's Electric System and Gas System, to fund the debt service requirement applicable to the Series 2007 Bonds, and to pay certain costs of issuance in connection with the Series 2007 Bonds.

Security

The Bonds are payable solely from and secured by a lien and pledge of the Net Revenues of the City's Energy System and on parity with its Energy System Refunding Revenue Bonds, Series 1998 A, Energy System Revenue Bonds, Series 1998 B, Energy System Refunding Revenue Bonds, Series 2001, Energy System Refunding Revenue Bonds, Series 2002, and Energy System Revenue Bonds Series 2005.

Form

$203,203,000 Serial Bonds, all fully registered. The Bonds are book-entry-only and are not evidenced by physical bond certificates. Interest is payable semi-annually on each April 1 and October 1, commencing April 1, 2006.

Agents

Registrar:	US Bank, Jacksonville, Florida.
Paying Agent:	US Bank, Jacksonville, Florida.
Bond Counsel:	Squire, Sanders, & Dempsey, L.L.P., Miami, Florida.

Ratings

Moody's:	Aaa (Aa3 underlying)
Standard and Poors:	AAA (AA- underlying)
Fitch:	AAA (AA- underlying)

Redemption Provisions

Optional Redemption

The Series 2007 Bonds maturing on and prior to October 1, 2017 are not subject to optional redemption. The Series 2007 Bonds maturing after October 1, 2018 are subject to redemption prior to maturity on or after October 1, 2017, at the option of the City, as a whole or in part at any time (by lot if less than all of a maturity) at the redemption price of 100% of the principal amount thereof, without premium, (plus accrued interest to the redemption date on the principal amount, if any).

Mandatory Redemption

The Series 2007 Bonds maturing on October 1, 2027 will be subject to mandatory redemption by operation of Amortization Installments, in part prior to maturity by lot, at redemption prices equal to 100% of the principal amount thereof plus interest accrued to the redemption date, beginning on October 1, 2026 and on each October 1 thereafterin the following principal amounts in the year specified:

Year	Amount
2026	$4,245,000
2027 (final maturity)	$4,445,000

The Series 2007 Bonds that mature on October 1, 2032, will be subject to mandatory redemption by operation of Amortization Installments, in part prior to maturity by lot, at redemption prices equal to 100% of the principal amount thereof plus interest accrued to the redemption date, beginning on October 1, 2028 and on each October 1 thereafterin the following principal amounts in the year specified:

October 1	Amount
2028	$4,675,000
2029	$11,770,000
2030	$12,355,000
2031	$12,975,000
2032 (final maturity)	$14,380,000

The Series 2007 Bonds that mature on October 1, 2037, will be subject to mandatory redemption by operation of Amortization Installments, in part prior to maturity by lot, at redemption prices equal to 100% of the principal amount thereof plus interest accrued to the redemption date, beginning on October 1, 2033 and on each October 1 thereafterin the following principal amounts in the year specified:

October 1	Amount
2033	$15,110,000
2034	$15,860,000
2035	$16,655,000
2036	$18,360,000
2037 (final maturity)	$19,275,000

$203,230,000
CITY OF TALLAHASSEE, FLORIDA
ENERGY SYSTEM REVENUE BONDS, SERIES 2007

Summary of Remaining Debt Service Requirements

Bond Year Ending October 1	Interest Rate	Principal	Interest	Total
2008	5.000%	$ 2,255,000	$ 10,108,600	$ 12,363,600
2009	4.000%	2,490,000	9,995,850	12,485,850
2010	4.000%	2,465,000	9,896,250	12,361,250
2011	5.000%	2,470,000	9,797,650	12,267,650
2012	5.000%	2,690,000	9,674,150	12,364,150
2013	5.000%	2,725,000	9,539,650	12,264,650
2014	5.000%	2,865,000	9,403,400	12,268,400
2015	5.000%	3,100,000	9,260,150	12,360,150
2016	5.000%	3,165,000	9,105,150	12,270,150
2017	5.000%	3,315,000	8,946,900	12,261,900
2018	5.000%	3,485,000	8,781,150	12,266,150
2019	5.000%	3,645,000	8,606,900	12,251,900
2020	5.000%	3,825,000	8,424,650	12,249,650
2021	5.000%	4,020,000	8,233,400	12,253,400
2022	5.000%	4,220,000	8,032,400	12,252,400
2023	5.000%	2,235,000	7,821,400	10,056,400
2024	4.500%	670,000	7,709,650	8,379,650
2025	5.000%	3,490,000	7,679,500	11,169,500
2026	5.000%	4,245,000	7,505,000	11,750,000
2027	5.000%	4,445,000	7,292,750	11,737,750
2028	5.000%	4,675,000	7,070,500	11,745,500
2029	5.000%	11,770,000	6,836,750	18,606,750
2030	5.000%	12,355,000	6,248,250	18,603,250
2031	5.000%	12,970,000	5,630,500	18,600,500
2032	5.000%	14,380,000	4,982,000	19,362,000
2033	5.000%	15,110,000	4,263,000	19,373,000
2034	5.000%	15,860,000	3,507,500	19,367,500
2035	5.000%	16,655,000	2,714,500	19,369,500
2036	5.000%	18,360,000	1,881,750	20,241,750
2037	5.000%	19,275,000	963,750	20,238,750
TOTALS		**$ 203,230,000**	**$ 219,913,050**	**$ 423,143,050**

$128,920,000
CITY OF TALLAHASSEE, FLORIDA
Energy System Revenue Bonds, Series 2005

Dated: October 1, 2005

Purpose

To fund certain capital improvements to the City's Electric System and Gas System, to fund the debt service requirement applicable to the Series 2005 Bonds, and to pay certain costs of issuance in connection with the Series 2005 Bonds.

Security

The Bonds are payable solely from and secured by a lien and pledge of the Net Revenues of the City's Energy System and on parity with its Energy System Refunding Revenue Bonds, Series 1998 A, Energy System Revenue Bonds, Series 1998 B, Energy System Refunding Revenue Bonds, Series 2001 and Energy System Refunding Revenue Bonds, Series 2002.

Form

$128,920,000 Serial Bonds, all fully registered. The Bonds are book-entry-only and are not evidenced by physical bond certificates. Interest is payable semi-annually on each April 1 and October 1, commencing April 1, 2006.

Agents

Registrar:	US Bank, Jacksonville, Florida.
Paying Agent:	US Bank, Jacksonville, Florida.
Bond Counsel:	Bryant, Miller and Olive, P.A., Tallahassee, Florida.

Ratings

Moody's:	Aaa (Aa3 underlying)
Standard and Poors:	AAA (AA- underlying)
Fitch:	AAA (AA- underlying)

Redemption Provisions

Optional Redemption

The Series 2005 Bonds maturing on and prior to October 1, 2015 are not subject to optional redemption. The Series 2005 Bonds maturing on after October 1, 2016 are subject to redemption prior to maturity on or after October 1, 2015, at the option of the City, as a whole or in part at any time (by lot if less than all of a maturity) at the redemption price of 100% of the principal amount thereof, without premium, (plus accrued interest to the redemption date on the principal amount, if any).

Mandatory Redemption

The Series 2005 Bonds maturing on October 1, 2035 will be subject to mandatory redemption by operation of Amortization Installments, in part prior to maturity by lot, at redemption prices equal to 100% of the principal amount thereof plus interest accrued to the redemption date, beginning on October 1, 2031 and on each October 1 thereafterin the following principal amounts in the year specified:

Year	Amount
2031	$6,695,000
2032	$7,035,000
2033	$7,380,000
2034	$7,750,000
2035 (final maturity)	$8,140,000

$128,920,000
CITY OF TALLAHASSEE, FLORIDA
ENERGY SYSTEM REVENUE BONDS, SERIES 2005

Summary of Remaining Debt Service Requirements

Bond Year Ending October 1	Interest Rate	Principal	Interest	Total
2008	3.500%	$ 2,350,000	$ 6,102,513	$ 8,452,513
2009	3.500%	2,300,000	6,020,263	8,320,263
2010	3.500%	2,515,000	5,939,763	8,454,763
2011	(1)	2,695,000	5,851,738	8,546,738
2012	4.500%	2,715,000	5,733,050	8,448,050
2013	(2)	2,940,000	5,610,875	8,550,875
2014	(3)	3,065,000	5,480,425	8,545,425
2015	4.000%	3,100,000	5,344,475	8,444,475
2016	(4)	3,325,000	5,220,475	8,545,475
2017	(5)	3,490,000	5,057,425	8,547,425
2018	5.000%	3,655,000	4,891,175	8,546,175
2019	4.375%	3,840,000	4,708,425	8,548,425
2020	4.400%	4,010,000	4,540,425	8,550,425
2021	4.500%	4,185,000	4,363,985	8,548,985
2022	4.500%	4,370,000	4,175,660	8,545,660
2023	5.000%	4,570,000	3,979,010	8,549,010
2024	4.600%	4,795,000	3,750,510	8,545,510
2025	4.600%	5,015,000	3,529,940	8,544,940
2026	5.000%	5,245,000	3,299,250	8,544,250
2027	5.000%	5,510,000	3,037,000	8,547,000
2028	5.000%	5,785,000	2,761,500	8,546,500
2029	5.000%	6,070,000	2,472,250	8,542,250
2030	5.000%	6,375,000	2,168,750	8,543,750
2031	5.000%	6,695,000	1,850,000	8,545,000
2032	5.000%	7,035,000	1,515,250	8,550,250
2033	5.000%	7,380,000	1,163,500	8,543,500
2034	5.000%	7,750,000	794,500	8,544,500
2035	5.000%	8,140,000	407,000	8,547,000
TOTALS		**$ 128,920,000**	**$ 109,769,130**	**$ 238,689,130**

(1) Bonds maturing 2011 are in two issues: $1,285,000 at 3.75% interest rate and $1,410,000 at 5.00% interest rate.
(2) Bonds maturing 2013 are in two issues: $1,655,000 at 4.00% interest rate and $1,285,000 at 5.00% interest rate.
(3) Bonds maturing 2014 are in two issues: $1,730,000 at 4.00% interest rate and $1,335,000 at 5.00% interest rate.
(4) Bonds maturing 2016 are in two issues: $320,000 at 4.00% interest rate and $3,005,000 at 5.00% interest rate.
(5) Bonds maturing 2017 are in two issues: $825,000 at 4.00% interest rate and $2,665,000 at 5.00% interest rate.

$17,680,000
CITY OF TALLAHASSEE, FLORIDA
Energy System Refunding Revenue Bonds, Series 2001

Dated: May 1, 2001

Purpose

To refund a portion of the City's outstanding Consolidated Utility System Revenue Bonds attributable to the Gas System to allow the Gas System to become part of the City's combined Energy System.

Security

The Bonds are payable solely from and secured by a lien and pledge of the Net Revenues of the City's Energy System on a parity with its Energy System Refunding Revenue Bonds, Series 1998 A, Energy System Revenue Bonds, Series 1998 B, Energy System Refunding Revenue Bonds, Series 2002 and Energy System Revenue Bonds, Series 2005.

Form

$14,325,000 Serial Bonds, $3,355,000 5.00% Term Bonds due October 1, 2019, all fully registered. The Bonds are book-entry-only and are not evidenced by physical bond certificates. Interest is payable semiannually on each April 1 and October 1, commencing October 1, 2001.

Agents

Registrar:	US Bank, Jacksonville, Florida.
Paying Agent:	US Bank, Jacksonville, Florida.
Bond Counsel:	Bryant, Miller and Olive, P.A., Tallahassee, Florida.

Ratings

Moody's:	Aaa (Aa3 underlying)
Standard and Poors:	AAA (AA- underlying)
Fitch:	AAA (AA- underlying)

Call Provisions

Optional Redemption

The Series 2001 Bonds maturing on or prior to October 1, 2016, are not subject to optional redemption prior to the maturity thereof. The Series 2001 Bonds maturing October 1, 2019, are subject to redemption prior to maturity on or after October 1, 2011, at the option of the City, as a whole or in part at any time (by lot if less than all of a maturity) during the following redemption periods at the following redemption prices (plus accrued interest on the principal amount, if any):

Redemption period (both sides inclusive)	Redemption Prices
October 1, 2011 through September 30, 2012	101%
October 1, 2012 and thereafter	100%

$17,680,000
CITY OF TALLAHASSEE, FLORIDA
ENERGY SYSTEM REFUNDING REVENUE BONDS, SERIES 2001

Summary of Remaining Debt Service Requirements

Bond Year Ending October 1	Interest Rate	Principal	Interest	Total
2008	4.200%	$ 905,000	$ 639,120	$ 1,544,120
2009	4.300%	940,000	601,110	1,541,110
2010	4.400%	985,000	560,690	1,545,690
2011	5.000%	1,030,000	517,350	1,547,350
2012	5.500%	1,075,000	465,850	1,540,850
2013	5.500%	1,140,000	406,725	1,546,725
2014	5.500%	1,200,000	344,025	1,544,025
2015	5.500%	1,000,000	278,025	1,278,025
2016	5.500%	1,005,000	223,025	1,228,025
2017	5.000%	1,060,000	167,750	1,227,750
2018	5.000%	1,120,000	114,750	1,234,750
2019	5.000%	1,175,000	58,750	1,233,750
TOTALS		**$ 12,635,000**	**$ 4,377,170**	**$ 17,012,170**

$143,800,000
CITY OF TALLAHASSEE, FLORIDA
Energy System Refunding Revenue Bonds, Series 1998 A

Dated: November 1, 1998

Purpose

To refund the City's outstanding Electric System Revenue Bonds, Series 1992 B and its Sunshine State Financing Commission loan dated April 10, 1997 and to fund certain transmission and distribution capital improvements to the City's Electric System.

Security

The Bonds are payable solely from and secured by a lien and pledge of the Net Revenues of the City's Energy System and on parity with its Energy System Revenue Bonds, Series 1998 B, Energy System Refunding Revenue Bonds, Series 2001 and Energy System Refunding Revenue Bonds, Series 2002 and Energy System Revenue Bonds, Series 2005.

Form

$64,970,000 Serial Bonds, $19,940,000 4.75% Term Bonds due October 1, 2021, $40,050,000 4.75% Term Bonds due October 1, 2026, and $18,840,000 5.00% Term Bonds due October 1, 2028, all fully registered. The Bonds are book-entry-only and are not evidenced by physical bond certificates. Interest is payable semi-annually on each April 1 and October 1 commencing April 1, 1999.

Agents

Registrar:	US Bank, Jacksonville, Florida.
Paying Agent:	US Bank, Jacksonville, Florida.
Trustee:	US Bank, Jacksonville, Florida.
Bond Counsel:	Bryant, Miller and Olive, P.A., Tallahassee, Florida.

Ratings

Moody's:	Aaa (Aa3 underlying)
Standard and Poors:	AAA (AA- underlying)
Fitch:	AAA (AA- underlying)

Call Provisions

Optional Redemption

The Series 1998 A Bonds maturing prior to October 1, 2016 are not subject to optional redemption prior to the maturity thereof. The Series 1998 A Bonds maturing on or after October 1, 2016, are subject to redemption prior to maturity on or after October 1, 2008, at the option of the City, as a whole or in part at any time (by lot if less than all of a maturity) during the following redemption periods at the following redemption prices (plus accrued interest on the principal amount, if any):

Redemption period (both dates inclusive)	Redemption Prices
October 1, 2008 through September 30, 2009	101%
October 1, 2009 and thereafter	100%

Mandatory Redemption

The Series 1998 A Bonds that mature on October 1, 2021 will be subject to mandatory redemption, by operation of Amortization Installments, in part prior to maturity by lot, at redemption prices equal to 100% of the principal amount thereof plus interest accrued to the redemption date, beginning on October 1, 2019 and on each October 1 thereafter in the following principal amounts in the years specified:

Year	Amount
2019	$6,345,000
2020	$6,640,000
2021 (final maturity)	$6,955,000

The Series 1998 A Bonds that mature on October 1, 2026 will be subject to mandatory redemption, by operation of Amortization Installments, in part prior to maturity by lot, at redemption prices equal to 100% of the principal amount thereof plus interest accrued to the redemption date, beginning on October 1, 2022 and on each October 1 thereafter in the following principal amounts in the years specified:

Year	Amount
2022	$7,290,000
2023	$7,630,000
2024	$7,990,000
2025	$8,370,000
2026 (final maturity)	$8,770,000

The Series 1998 A Bonds that mature on October 1, 2028 will be subject to mandatory redemption, by operation of Amortization Installments, in part prior to maturity by lot, at redemption prices equal to 100% of the principal amount thereof plus interest accrued to the redemption date, beginning on October 1, 2027 and on October 1, 2028 in the following principal amounts in the years specified:

Year	Amount
2027	$9,195,000
2028 (final maturity)	$9,645,000

Special Mandatory Redemption

In the event the City sells or disposes of all or a portion of the Energy System and such sale or disposition will, in the opinion of Bond Counsel, absent a redemption of all or a portion of the Series 1998 A Bonds, adversely effect the exclusion of interest on the Series 1998 A Bonds from the gross income of the holders thereof for purposes of Federal income taxation, all or a portion of the Series 1998 A Bonds shall be subject to a special mandatory redemption at the prices (expressed as a percentage of par) set forth below, plus accrued interest to the redemption date; provided that with respect to Series 1998 A Bonds maturing in the years 2007 and 2008 and the years 2010 through and including 2015, such price shall be the greater of the prices set forth below or the accreted values shown in Appendix I of the Series 1998 A Official Statement plus accrued interest to the redemption date. In the event less than all of the Series 1998 A Bonds are subject to such special mandatory redemption, the City shall select the Series 1998 A Bonds to be subject to redemption in such a manner, as it shall so determine. In the event the Series 1998 A Bonds are subject to optional redemption as described above, the City may utilize such optional redemption provisions in lieu of the Special Mandatory Redemption.

$143,800,000
CITY OF TALLAHASSEE, FLORIDA
ENERGY SYSTEM REFUNDING REVENUE BONDS, SERIES 1998 A

Summary of Remaining Debt Service Requirements

Bond Year Ending October 1	Interest Rate	Principal	Interest	Total
2008	5.000%	$ 3,715,000	$ 6,409,806	$ 10,124,806
2009	4.125%	3,905,000	6,224,056	10,129,056
2010	5.000%	4,060,000	6,062,975	10,122,975
2011	5.250%	4,270,000	5,859,975	10,129,975
2012	5.250%	4,495,000	5,635,800	10,130,800
2013	5.250%	4,730,000	5,399,813	10,129,813
2014	5.250%	4,980,000	5,151,488	10,131,488
2015	5.250%	5,240,000	4,890,038	10,130,038
2016	4.750%	5,510,000	4,614,938	10,124,938
2017	4.750%	5,780,000	4,353,213	10,133,213
2018	4.750%	6,045,000	4,078,663	10,123,663
2019	4.750%	6,345,000	3,791,525	10,136,525
2020	4.750%	6,640,000	3,490,138	10,130,138
2021	4.750%	6,955,000	3,174,738	10,129,738
2022	4.750%	7,290,000	2,844,375	10,134,375
2023	4.750%	7,630,000	2,498,100	10,128,100
2024	4.750%	7,990,000	2,135,675	10,125,675
2025	4.750%	8,370,000	1,756,150	10,126,150
2026	4.750%	8,770,000	1,358,575	10,128,575
2027	5.000%	9,195,000	942,000	10,137,000
2028	5.000%	9,645,000	482,250	10,127,250
TOTALS		**$ 131,560,000**	**$ 81,154,291**	**$ 212,714,291**

$49,220,000
CITY OF TALLAHASSEE, FLORIDA
Energy System Revenue Bonds, Series 1998 B

Dated: November 1, 1998

Purpose

To fund a portion of the costs of construction of planned generation capital improvements to the City's Electric System.

Security

The Bonds are payable solely from and secured by a lien and pledge of the Net Revenues of the City's Energy System and on a parity with its Energy System Refunding Revenue Bonds, Series 1998 A, Energy System Refunding Revenue Bonds, Series 2001, Energy System Refunding Revenue Bonds, Series 2002 and Energy System Revenue Bonds, Series 2005.

Form

$25,020,000 Serial Bonds, and $24,200,000 5.05% Term Bonds due October 1, 2028. The Bonds are book-entry-only and are not evidenced by physical bond certificates. Interest payable semi-annually on each April 1 and October 1 commencing April 1, 1999.

Agents

Registrar:	US Bank, Jacksonville, Florida.
Paying Agent:	US Bank, Jacksonville, Florida.
Trustee:	US Bank, Jacksonville, Florida.
Bond Counsel:	Bryant, Miller and Olive, P.A., Tallahassee, Florida.

Ratings

Moody's:	Aaa (Aa3 underlying)
Standard and Poors:	AAA (AA- underlying)
Fitch:	AAA (AA- underlying)

Call Provisions

Optional Redemption

The Series 1998 B Bonds maturing on and prior to October 1, 2007 are not subject to optional redemption prior to the maturity thereof. The Series 1998 B Bonds maturing October 1, 2028, are subject to redemption prior to maturity on or after October 1, 2008, at the option of the City, as a whole or in part at any time (by lot if less than all of a maturity) during the following redemption periods at the following redemption prices (plus accrued interest on the principal amount, if any):

Redemption period (both dates inclusive)	Redemption Prices
October 1, 2008 through September 30, 2009	101%
October 1, 2009 and thereafter	100%

Mandatory Redemption

The Series 1998 B Bonds that mature on October 1, 2028 will be subject to mandatory redemption, by operation of Amortization Installments, in part prior to maturity by lot, at redemption prices equal to 100% of the principal amount thereof plus interest accrued to the redemption date, beginning on October 1, 2023 and on each October 1 thereafter in the following principal amounts in the years specified:

Year	Amount
2023	$2,200,000
2024	$3,980,000
2025	$4,180,000
2026	$4,390,000
2027	$4,610,000
2028 (final maturity)	$4,840,000

Special Mandatory Redemption

In the event the City sells or disposed of all or a portion of the Energy System and such sale or disposition will, in the opinion of Bond Counsel, absent a redemption of all or a portion of the Series 1998 B Bonds, adversely effect the exclusion of interest on the Series 1998 B Bonds from the gross income of the holders thereof for purposes of Federal income taxation, all or a portion of the Series 1998 A Bonds shall be subject to a special mandatory redemption at the prices (expressed as a percentage of par) set forth below, plus accrued interest to the redemption date. In the event less than all of the Series 1998 B Bonds are subject to such special mandatory redemption, the City shall select the Series 1998 B Bonds to be subject to redemption in such a manner, as it shall so determine.

Redemption Period	Redemption Price
October 1, 1999 to September 30, 2000	105.0%
October 1, 2000 to September 30, 2001	104.5%
October 1, 2001 to September 30, 2002	104.0%
October 1, 2002 to September 30, 2003	103.5%
October 1, 2003 to September 30, 2004	103%
October 1, 2004 to September 30, 2005	102.5%
October 1, 2005 to September 30, 2006	102%
October 1, 2006 to September 30, 2007	101.5%
October 1, 2007 to September 30, 2008	101%
October 1, 2008 to September 30, 2009	100.5%
October 1, 2009 and thereafter	100%

$49,220,000
CITY OF TALLAHASSEE, FLORIDA
ENERGY SYSTEM REVENUE BONDS, SERIES 1998 B

Summary of Remaining Debt Service Requirements

Bond Year Ending October 1	Interest Rate	Principal	Interest	Total
2008	5.000%	$ -	$ 1,210,000	$ 1,210,000
2009	5.000%	-	1,210,000	1,210,000
2010	5.000%	-	1,210,000	1,210,000
2011	5.000%	-	1,210,000	1,210,000
2012	5.000%	-	1,210,000	1,210,000
2013	5.000%	-	1,210,000	1,210,000
2014	5.000%	-	1,210,000	1,210,000
2015	5.000%	-	1,210,000	1,210,000
2016	5.000%	-	1,210,000	1,210,000
2017	5.000%	-	1,210,000	1,210,000
2018	5.000%	-	1,210,000	1,210,000
2019	5.000%	-	1,210,000	1,210,000
2020	5.000%	-	1,210,000	1,210,000
2021	5.000%	-	1,210,000	1,210,000
2022	5.000%	-	1,210,000	1,210,000
2023	5.000%	2,200,000	1,210,000	3,410,000
2024	5.000%	3,980,000	1,100,000	5,080,000
2025	5.000%	4,180,000	901,000	5,081,000
2026	5.000%	4,390,000	692,000	5,082,000
2027	5.000%	4,610,000	472,500	5,082,500
2028	5.000%	4,840,000	242,000	5,082,000
TOTALS		**$ 24,200,000**	**$ 22,767,500**	**$ 46,967,500**

CONSOLIDATED UTILITY AND STORMWATER DRAINAGE SYSTEMS

The Consolidated Utility and Stormwater Drainage System refers to two of the City's utilities and one of its special revenue funds, grouped together primarily for the purpose of debt financing. The Systems are defined herein as the Utility System (the Water System and the Sewer System) and the Stormwater Drainage System.

While the City's Water System and Sewer System comprise two separate utilities for accounting and rate setting purposes, operationally they are very similar and are under the direction of the same department General Manager. Billing, rate setting and, to some extent, territory served are determined in a similar manner for each system.

The City has exclusive authority to provide water and sewer services to all customers within the corporate City limits. In addition, the City is a provider of water and sewer services to portions of Leon County (the "County") and, to a limited degree, in Wakulla County. The City's Stormwater Drainage System covers the 102.97 square miles within the City limits.

Other Service Providers

Talquin Electric Cooperative (Talquin) a member-owned utility has been providing limited water and sanitary sewer services to specific developments in the unincorporated areas of the County since 1963. According to Florida Department of Environmental Protection (DEP) records, Talquin owns 12 water systems within the County, with total design capacity of 11.6 million gallons per day (mgd). Talquin also owns 4 sewer systems in the County and is permitted for approximately 1 mgd of wastewater. A local drilling company owns 6 water systems with design capacity of 1.5 mgd. There are 8 very small sanitary sewer systems with total capacity of 0.14 mgd.

Water Quality Division

To monitor the quality of the City's water, the Utility System operates and maintains through its Water Quality Division its own wager-quality testing laboratory (the "Laboratory") in compliance with Section 403.850, Florida Statutes, and the "Florida Safe Drinking Water Act". The Laboratory has become certified under the National Environmental Laboratory Accreditation Program administered through the Florida Department of Health's Environmental Certification Program, Chapter 64E, and FAC. The Water Quality Division performs compliance testing for water production facilities and the wastewater treatment plants. The Water Quality Division has a high level of sophistication, providing for the testing of complex organic, inorganic, and microbiological organisms in the Laboratory.

The Water Quality Division also administers: the Cross Connection Control Program, mandated by DEP, which identifies and prevents potential contamination sources to the Water System, the Aquifer Protection Program a joint agreement between the County and the City designed to prevent contamination of the Floridan Aquifer, and the Industrial Pretreatment Program, which monitors and regulates the introduction of certain substances into the Sewer System.

The Water Quality Division also supports the Utility System through the use of a Supervisory Control and Data Acquisition System (SCADA). SCADA remotely monitors and controls water production wells and elevated storage tanks, maintaining optimal pressure and availability of potable water. The SCADA system also monitors many of the sewer pumping stations and controls operations in some of the larger stations. In a lesser role, the Water Quality Division assists and provides similar services to other City departments. Water Quality Division staff assists the Stormwater Drainage System in investigations and in identifying potential discharges in compliance with the National Pollution Discharge Elimination System.

Rate Setting

The Commission is vested with the sole authority to establish water, sewer and stormwater rates for the facilities and other services afforded by the Systems, subject to Section 180.191, Florida Statutes. This provision establishes a limitation on the differential that maybe charged customers outside of the municipal boundaries as opposed to those within the municipal boundaries.

Pursuant to the Resolution, which requires that rates and charges for the Utility System shall not be changed except upon the recommendation of the Qualified Independent Consultant, the City has retained the firm of R.W. Beck to assist the City in performing the rate studies for the Utility System and for various other utility matters. The City does not retain a Qualified Independent Consultant to assist in setting rates for the Stormwater Drainage System. The Commission establishes stormwater drainage fees based on an amount deemed sufficient to cover the Stormwater Drainage System's projected operational, maintenance and capital improvements.

The City's financing policy is to fund general government services from various fees and charges, entitlements from other governmental agencies, taxes, and transfers from utility revenues. The City has established a targeted transfer from its various utilities to help fund these general government services. These transfer requirements are a factor in setting the City's utility System rates and charges. There is no transfer requirement with respect to the Stormwater Drainage System.

In order to insure that rate and charges are sufficient to meet the rate covenant as set forth in the Resolution and to provide adequate revenues to fund the Utility System's Five-Year Capital Improvement Program (the "Five-Year Capital Improvement Program") and other system requirements, the City has established a process of reviewing the rates and charges for the Utility System, separately for each of the Water System and the Sewer System. The Commission approves rates through adoption of a rate ordinance after advertising and conducting public hearings. Historically, the ordinance implementing the findings of the rate study and the public hearing process has provided, to the extent needed, changes in the rates for both the first and second years of the study period.

Water and Sewer Rates

Effective April 1, 2006, following a comprehensive rate study by R.W. Beck, the Commission adopted water and sewer rate increases pursuant to Ordinance No. 06-R-09 (the "Rate Ordinance") that were implemented as follows:

- 10/01/06 – Water rate increased 6% from $1.22 to $1.29 per 1,000 gallons;
- 04/01/06 – Sewer rate increased 4% from $2.68 to $2.79 per 1,000 gallons;
- 10/01/06 – Sewer rate increased 10% from $2.79 to $3.08 per 1,000 gallons; and
- 10/01/07 – Sewer rate increased 12% from $3.08 to $3.46 per 1,000 gallons.

These water and sewer rates are increased by 50% for customers outside the City limits in both the County and Wakulla County. Commencing October 1, 2008, both water and sewer rates will be automatically adjusted annually by the Consumer Price Index.

Additionally, the rate study resulted in increasing the water and sewer tap fees, which are set to capture actual costs. For example, the water tap fee for the standard 5/8-inch residential meter increased from $500 to $650. All sewer tap fees are based on actual cost as of April 2006.

In late June 2007, the Commission authorized a new water and sewer rate study to determine the financial requirements of the planned Advanced Wastewater Treatment Improvements that are discussed in detail herein under the section entitled Wastewater System.

While the previous rate study covered the period through FY 2008 and, therefore, considered partial funding of the Wastewater treatment capital projects, described herein, the new rate study addresses the capital impacts for the five-year period from fiscal year ending September 30, 2008 through September 30, 2012. The new rate study was completed in February 2008 with necessary sewer rate increases possibly implemented in April 2008. The proposed rate increases are anticipated to be phased in over several years and could be substantial.

In May 2005, the County and the City executed a new Water and Sewer Franchise Agreement (the "Franchise Agreement") that grants the City the exclusive water and/or sewer franchise for all remaining unfranchised areas in the unincorporated area of the County. The Franchise Agreement includes criteria that required undeveloped property to connect to the City's Water System and Sewer System if available within specified distances.

Water and Sewer System Development Charges

The City has in place System Development Charges to fund a portion of the capital costs associated with growth for both the Water System and the Sewer System. On April , 2006 the System Development Charge for the Water System (the "Water System Development Charges") was increased to $630 per residential equivalent unit within the incorporated area, and for the Sewer System (the "Sewer System Development Charges") was increased to $3,000 within the incorporated are for the same standard residential connection. For customers located outside the City limits, these System Development Charges are increased by 50% in the county and in Wakulla County. The previous charges had been in effect since 1994. The System Development Charges are reviewed and revised, if necessary, with each rate study.

Rebates to Developers

The City provides for the rebate of on-site costs to developers in the case of certain approved developments within the City where water and sewer lines are financed and installed by the developer to the City's specifications. This policy is designed to encourage developers to install water and sewer lines at the initial stage of a development, thereby providing additional customers for the City, and as a means of preventing the much higher future cost associated with retrofitting existing developments with either water or sewer mains. It also encourages annexation into the City. The on-site rebate must be approved in advance by the City and is limited to the maximum limit, whichever is less. The maximum limit is $1,080 per residential equivalent unit for sewer lines and $540 per residential equivalent unit for water lines. Further, the rebate is paid to the developer only as the customers are connected to the Utility System and will be discontinued after 20 years even if the developer has not received full reimbursement. An additional maximum of $120 per residential equivalent unit for sewer and $60 for water is paid to the City's Affordable Housing Trust Fund. Off-site costs of master plan projects within the City limits, which will serve more than a single development, are funded directly to the City; refunded to the developer as funds become available; or for projects outside the City limits, refunded by System Charges to developers as customers connect to the project. The 2005 rate study resulted in the elimination of any rebates for multi-family developments.

WATER SYSTEM

General

The City owns, operates and maintains the Water System, which currently services approximately 75,242 customers. The Water System consists of 27 water supply wells, 8 elevated storage tanks having a combined capacity of 5.25 million gallons, approximately 1,100 miles of water mains and 5,700 fire hydrants. Eighteen of the 27 wells are equipped with standby engines that provide pumping capacity during power failures. The wells have an aggregate total production capacity of approximately 73.2mgd. The wells vary in depth from 190 - 483 feet and extend into the Floridan Aquifer. The Floridan Aquifer is a series of consolidated water-bearing strata, which underlies the state of Florida and portions of the states of Georgia, Alabama and South Carolina, and constitutes one of the richest aquifers in the world.

The Water System provides treated water to all developed areas of the City and certain contiguous incorporated and unincorporated urbanized areas of the County. The City also provides water service in St. Marks and portions of Wakulla County by an interconnecting main.

Consumptive Use Permit (CUP)

Two concerns regarding water, typical of Florida, by which the City is not affected, are the danger of running out of water and of salt-water intrusion. The United States Geological Survey (USGS) reports that 130 billion gallons of water flow through the County each year by way of the Floridan Aquifer. The City is the largest user, yet withdraws less than 7% of the available flow each year, with much of its usage being returned to the Floridan Aquifer via the sewer effluent reuse system.

In February 2006, the Northwest Florida Water Management District (NFWMD) renewed the City's CUP for five years. The permit now extends until September 2010. The CUP regulates the volume of raw water withdrawn from the City's public water supply wells. The City's current annual permitted rate of raw water withdrawal is 33.7 mgd from all the City's wells with a maximum daily withdrawal rate of 59.31 mgd and a monthly total limit of 1.4154 billion gallons. The City also has the right to request future modifications, which must be evaluated on the specifics of each request. Over 12 billion gallons of water was produced by the Water System in FY 2007.

Vulnerability Assessment and Consumer Confidence Report

A Vulnerability Assessment (VA) of the Water System was completed in FY 2003 in conformance with federal requirements. The Water System continues to implement security improvements at water supply wells and storage tank sites. Due to the widespread location of the Water System facilities and the need for additional funding, completion of the security plan has been extended until 2008. The Emergency Operations Plan (EOP) for the Water System is being evaluated by a consultant during 2008 to ensure its completeness and effectiveness, and will be filed tested prior to the beginning of the hurricane season in June 2008.

The Water System published and distributed its Consumer Confidence Report (CCR) in FY 2005, FY 2006 and FY 2007 in accordance with DEP requirements.

Master Water Plan and Current Projects

A Master Water Plan was implemented by Hatch, Mott, MacDonald, Florida L.L.C. and published in 2004 (the "2004 MWP"). The 2004 MWP identified the need for two additional water supply wells. A comprehensive update to the 2004 MWP is expected to be conducted in 2008 to address the potential growth in territory granted to the City by the Franchise Agreement.

Construction of Well 28, a major water supply well recommended in the 2004 MWP, started in 2006 and was completed in 2007. The raw water quality from Well 28 will require only chlorination and fluoridation treatment, and the initial pumping capacity will be approximately 1,700 gpm and can be increased up to 2,500 gpm with two additional pump stages to meet future growth demands. Water modeling has been conducted in 2006 – 2007 to determine the optimal sites for new wells and storage facilities in the northeast and east service areas where major growth continues. Construction of iron/manganese removal facilities at existing Well 26 has been completed and will be placed in service in March 2008 following start-up procedures and operator training. This facility will result in improved water quality in the northwest service area.

Other major water projects completed in 2006 include major extensions of the Water System on U.S. Highway 90 West and Buck Lake Road in the County in connection with the Franchise Agreement, refurbishment/upgrading of Water Well Houses Nos. 3, 4, and 5, and cleaning/re-painting of Storage Tanks Nos. 2, 3, and 4. Two more well houses and another water tank will be addressed in fiscal year ending September 30, 2008. The 2004 MWP identified localized residential areas in the northeast service area that experience low pressure during very dry, hot conditions and corresponding heavy irrigation demands. A water-modeling project was started in 2006 to determine the feasibility of pressure booster improvements for these areas has been completed, and funding has been identified for the fiscal year ending September 30, 2008 for construction of necessary improvements. Replacement of undersized or aging water distribution system infrastructure was completed in conjunction with roadway improvement projects and will continue in successive years in order to maintain water system infrastructure reliability.

The major challenge for the City with respect to the Water System in the next several years is the responsive, orderly expansion of the Water system to meet the continuing growth that will be mainly occurring in the unincorporated area. The Water System expansion will include the optimal location and engineering of new water supply wells, storage tanks, and water mains to provide reliable service. It is expected that additional treatment to remove naturally occurring constituents such as: iron, hydrogen sulfide, and bacteria will be required but can be readily accomplished.

Advanced Metering Infrastructure (AMI)

A significant portion of the Water Capital Improvement Program comprises the Ewater System's portion of the AMI program. The overall AMI program will result in the upgrade or replacement of all of the City's utility meters – gas, water and electric – to provide for remote automated reading. The AMI program will eliminate the costs, errors and liabilities associated with manual reading of meters. The AMI program will also enhance customer service by allowing a service representative to remotely poll the water meter and review recent and past consumption history to verify a reading or determine the possibility of a leak. The installation of the advanced meters is expected to be completed within three years, by late 2010.

WASTEWATER SYSTEM

General

The City owns, operates, and maintains a sanitary sewer system (the "Sewer System") that serves the City and portions of the County. The Sewer System currently consists of two treatment plants having a combined treatment design capacity of 32.0 mgd, approximately 968 miles of sanitary sewer mains, and 96 pumping stations. There are approximately 66,063 sewer customers.

All houses and buildings within the City limits situated on property within 200 feet of any completed sewer line or any future sewer line when constructed are required to be connected to the Sewer System, and are required by City ordinance to physically connect to the Sewer System when any evidence of septic tank failure occurs. In addition, connection to Sewer System is required for any developments within the City limits with four or more residential units. All customers of the Sewer System are required to connect to the Water System if it is available or provide metering of their water well if not connected to the Water System.

Treatment Plants

The City operates two sewer treatment plants (the "Plants"): the Thomas P. Smith Treatment Plant ("TPS Plant") and the Lake Bradford Road Wastewater Treatment Plant ("LBR Plant"). Permitting of these Plants is carried out by DEP. The operational permits for the Plants (the "DEP Operation Permits") set forth certain general and specific conditions, effluent limitations and disposal requirements. The sampling, monitoring and recovered water limitations for these Plants are set out by the DEP Operation Permits, which include permitted flow, pH, chlorine residual and Biochemical Oxygen Demand (BOD). The biosolids generated by the Sewer System is required to be treated and disposed of as set out by the DEP Operation Permits. In addition, EPA has regulatory authority over biosolids in the state of Florida.

The TPS Plant consists of a 25.0 mgd activated sludge facility and 2.5 mgd trickling filter facility. In 1974, a 7.5 mgd activated sludge facility began operation and was subsequently expanded to 15 mgd in1983. During 1988, the City modified certain facilities and operating practices at the TPS Plant, which resulted in an increase of the rated capacity to 20.0 mgd. In FY 1992, the City completed construction of a major expansion of the TPS Plant to provide an additional 7.5 mgd of capacity, which increased total TPS Plant capacity to 27.5 mgd.

The LBR Plant is a 4.5 mgd trickling filter and activated sludge plant that commenced operation in 1950. The trickling filter portion of the LBR Plant is not currently used but is available and operable. Treated effluent from the LBR Plant is pumped to holding ponds at the TPS Plant for transfer to the Southwest and Southeast Spray Irrigation Facilities.

Settlement Agreement and Advanced Wastewater Treatment

The DEP Operation Permits for both the TPS and LBR Plants expired in August 2004. In February 2006, two years following the original submittal of the permit applications, the DEP published a Notice of Intent to issue the permits for a renewal period of five years. However, in March 2006, three petitioners, namely the Florida Wildlife Federation, Wakulla County, and Mr. Joseph Glisson (an individual Wakulla County resident) (collectively referred to as the "Petitioners"), challenged the proposed permits on the alleged basis that the permits did not provide for the adequate protection of the water quality in Wakulla Springs. Subsequently, the presiding Administrative Law Judge directed the parties to attempt resolution by mediation. After several meetings a Settlement Agreement was executed on December 18, 2006 (the "Settlement Agreement"). The major provisions of the Settlement Agreement included: the upgrading of the LBR Plant within three years of permit issuance to meet advanced wastewater treatment standards of 5 mg/liter (mg/l) of Carbonaceous Biochemical Oxygen Demand (CBOD); 3 mg/1 of Total Suspended Solids (TSS), 3 mg/1 of Total Nitrogen (TN), 2.5 mg/l Total Phosphorous (TP); the upgrading of the TPS Plant to the same advanced standards as those for the LBR Plant, with the first TPS Plant treatment train to be upgraded within 3.5 years of permit issuance and the second and third trains to be upgraded in successive one-year increments; the addition of high-level disinfection facilities at both facilities to produce public access reuse quality effluent; the upgrading of solids treatment facilities at the TPS Plant within three years of permit issuance to produce Class AA biosolids; an annual nitrogen reduction schedule corresponding to the advanced treatment upgrades and the implementation schedule; the continued use of the Southeast Farms sewer disposal spray facility ("SEF Facility") with development of vegetative cover to optimize nitrogen uptake and result in harvesting of the vegetation; prohibition of supplemental fertilizer and animals at the SER Facility; completion of a reuse system feasibility study within one year of permit issuance; and lastly, establishment of a Wakulla Springs Watershed Protection Committee that would include representatives from the Petitioners, City, and other stakeholders.

In May 2007, the City submitted amended operating permit applications that incorporated the provisions of the Settlement Agreement, and DEP subsequently issued the final permits on January 29, 2008, for both the LBR and TPS Treatment Plants with a renewal period of five years for each plant. During the amended permitting process, the City has moved forward to develop the Capital Improvement Program (CIP) to meet the anticipated permit requirements for the advanced wastewater treatment upgrades; selected separate consultant teams to design the improvements for the LBR Plant and the TPS Plant; and also retained an engineering consultant to serve as Program Manager, whose responsibility will be to coordinate design and construction activities to ensure that the CIP is completed in accordance with the compliance schedule and within budget.

The City's estimate of the financial impact of the advanced wastewater treatment improvements stipulated by the Settlement Agreement is the addition of $130 million to the five-year Capital Improvement Plan. As stated previously, the City with the assistance of the R.W. Beck, has begun a rate study to determine the impact on sewer rates and the need and timing of such rate increases. The rate study was completed in February of 2008 with necessary sewer rate increases to be implemented in three phases, possibly started in April 2008 and following with increases in 2009 and 2010.

In February 2007, the City completed the requirements of a Consent Order issued by DEP in May of 2005 to address Total Suspended Solids violations that occurred at the TPS Plant.

Master Sewer Plan and Master Treatment Plan

A contact with Hatch, Mott, MacDonald, Florida L.L.C. for the Master Sewer Plan (MSP) was executed in early 2005. The MSP addresses sewer collection and pumping systems, including the development of a computer model of both the gravity and pressure systems. Condition assessments will be performed and result in a 20-year capital improvement plan set forth in five-year increments for replacement, rehabilitation, and addition of sewer system infrastructure.

Phase I of the MSP was completed in 2006 and resulted in the development of a computer model of the sewer collection gravity system and also the identification of deficiencies in Sewer System capacities. Phase II will begin in mid 2008 and will entail the development of a computer model of the sewer pumping system and a ten-year capital improvement plan to address Sewer System deficiencies and improvements needed to meet future growth, focusing on the potential growth impacts in the unincorporated area, Phase II of the MSP should be completed within one year, in 2009.

The City is also developing a Master Wastewater Treatment Plan (MTP) to address long-range sewer treatment and disposal issues. Phase I was completed by Camp Dresser & McKee, Inc., in May 2005 and entailed a condition assessment of the existing TPS Plant facilities and a review of current plant capacities and operations. Phase II of the MTP is nearing completion with the final report expected in late 2007 and will entail and study of advanced wastewater treatment technologies nutrient removal and reuse applications to meet the requirements of the Settlement Agreement; alternative disposal methods; and expansion alternatives for both treatment and disposal when the capacity of the existing facilities has been reached.

Southeast Farm and USGS Groundwater Study

In response to increasing concern about the possible impact of the City's Southeast Farm sewer disposal facility ("SEF Facility") on the Floridan Aquifer and the Wakulla Springs watershed, the City through its Water System entered into a joint agreement with United States Geological Survey (USGS) to conduct a three-year study of water quality of flow direction in the aquifer as the groundwater moves under and beyond the farm's boundaries. Several monitoring wells and state-of-the-art analytical methods were employed.

The three-year groundwater study conducted jointly by the USGS and the City was completed in late 2006. The study was initiated in response to increasing concern about the possible impact of the City's SEF Facility on the Floridan Aquifer and the Wakulla Springs watershed. The study addressed the water quality and flow direction in the aquifer as the groundwater moves under and beyond the farm's boundaries. Several monitoring wells and state-of-the-art analytical methods were employed. The major product of the study was the development and application of a sophisticated groundwater model to track flow and water quality in the aquifer. The City provided a total of $300,000 in support of the study. The study results indicated that the current volume of treated sewer discharge at the SEF Facility was contributing 25 - 45% of the nitrogen loading above the background at Wakulla Springs. The groundwater model also indicates that the advanced wastewater treatment improvements planned by the City over the next six years will result in very significant reduction of the City's contribution to the nitrogen loading in Wakulla springs and demonstrates that other nitrogen sources, particularly septic tanks, will have a much greater impact than the City's sewer disposal in the future.

Sewer System Recent Capital Improvement Projects

Final design and permitting of the Tram Road Reuse Facility (the "Tram Road Facility"), the City's first reclaimed water treatment facility, was completed in 2006. Construction started in February 2007 and is scheduled to be completed in March 2008. The Tram Road Facility will be placed in service with an initial capacity of 1.2 million gallons per day to provide public access reuse water for irrigation in the Southwood development area, including the golf course, two high schools, the State Office Complex facilities, and roadway/common areas. The plant site of four acres can accommodate an expansion to 2.4 mgd. The NWFWMD has provided the City grant funding of $1.65 million to offset the total estimated cost of $4.1 million. The Water System and the City Attorney's Office are coordinating on the development of the necessary City ordinance that will establish the policies, procedures, and requirements for the reuse water system.

An important project scheduled to start in FY 2008 is the development of an asset management plan that will provide the processes and procedures to determine when equipment and infrastructure should be replaced or upgraded to ensure that water/sewer operations are reliably maintained for regulatory compliance and minimal interruption in services. The plan will be developed in phases during the five-year CIP and first address sewer treatment facilities, followed by sewer pumping and collection facilities and then water production, storage, and distribution facilities.

City/County Water and Sewer Agreement

Concurrent with the new Franchise Agreement, the County and City executed a separate agreement to provide City sewer service to Units I and II of Killearn Lakes Subdivision ("Killearn

Lakes") in the northeast section of the County. Killearn Lakes is a 30-year-old subdivision consisting of approximately 1,350 lots where septic tank systems have been failing due to unsuitable drainage and soil conditions. The County paid $5 million for construction of a low-pressure sewer system that was completed and accepted by the City in January 2007. Each lot within Killearn Lakes will connect to the central sewer system via a privately owned grinder pump and pressure line. The customers will connect voluntarily or involuntarily if their septic system fails. Such customers will pay applicable City fees and charges. To provide incentive for voluntary connection, the City has frozen the Sewer System's charge at the prior rate ($3,780) for two years from the date the City accepted the Killearn Lakes system from the County. The City also offers their existing low-interest loan program to finance the connection costs. The Talquin Electric Cooperative, not the City, provides water service to Killearn Lakes Subdivision and will provide water meter readings to the City for sewer billing purposes.

Environmental Management System

The City, in fiscal year ending September 30, 2007, developed an Environmental Management System ("Wastewater Treatment EMS") for the LBR Plant, the TPS Plant and the SEF Facility. The Wastewater Treatment EMS has received certification from the International Organization of Standardization (ISO) for meeting compliance with their standards for environmental management. The Wastewater Treatment EMS process took almost two years of planning, training, reviews and final audit by the ISO. The Wastewater Treatment EMS is a set of management processes and procedures that allow an organization to analyze, control and reduce the environmental impact of its activities, products and services and operate with greater efficiency and control. The Wastewater Treatment EMS encourages continuous improvement of environmental performance. The EPA participated in the development of the ISO standards and promotes the use of environmental management systems to improve regulatory compliance and pollution prevention. The City anticipates developing environmental management systems throughout the Utility System over the next two years. The City's Wastewater Treatment E ISO certification within the state of Florida.

STORMWATER SYSTEM

The City operates and maintains the Stormwater Drainage System (i.e. a network of pipes, channels, and stormwater management facilities) to serve the 102.97 square miles within the City's incorporated limits. The Stormwater Drainage System consists of approximately 371 stormwater management facilities, 8,700 drainage structures, 330 miles of enclosed storm drains, 245 miles of roadside ditches, 56 miles of minor to medium outfall ditches and 26 miles of major outfall canals.

The operation, maintenance and expansion of the Stormwater Drainage System is funded through a stormwater utility fee. The stormwater utility fee method of funding is more equitable than an ad-valorem tax assessment for two reasons. First, the community wide cost of managing stormwater runoff is more closely related to the amount of runoff generated from a property than it is to the taxable value of a property. The runoff generated from a property is closely associated with its impervious area, so the City uses impervious area as the basis for the stormwater fee. Property taxes would only be poorly correlated to runoff, if at all. The second reason the stormwater utility fee method of funding is used is that over half of the property on the tax rolls in the City is tax-exempt. This unusual situation results from the City being a government center. If the Stormwater Drainage System were funded through property taxes, the owners of these tax-exempt properties would not contribute any part of the cost of managing runoff despite their generating a large portion of the demand for services.

Management Discussion of Operations

During FY 2007, the actual operating revenues for the Stormwater Drainage System were $13.9 million while expenditures were $8.7 million resulting in actual income before transfers of $5.2 million. In accordance with the financing policy, $133,000 was transferred to the Stormwater Renewal, Replacement and Improvement Fund, to offset the need for future debt.

The Stormwater Drainage System is operated on a full cost recovery basis with associated revenues and expenditures accounted for within the Stormwater Fund. Stormwater maintenance activities are provided by the Public Works Department but are funded from the Stormwater Fund. In FY 2007, the cost for those activities was approximately $4.5 million. In addition to maintenance, a major portion of annual revenue goes to capital improvements to improve and expand the physical Stormwater Drainage System. The FY 2008 Five-Year Capital Improvement Program includes 26 projects. The total cost of these projects is approximately $35.2 million, which is required for FY 2008 through FY 2012. At this time, no debt funding is anticipated for any ongoing or future stormwater projects.

During FY 2007, the base stormwater fee was $6.93 per ERU per month. An ERU is the amount of impervious area associated with a typical single-family unit. This has been determined statistically to be 1,990 square feet. In these terms then the base monthly stormwater fee can be considered to be $6.93 per residence. Non-residential land uses typically have substantially more impervious surface than do residential uses. To determine the stormwater fee for a non-residential parcel the actual impervious area on site is measured. The total impervious area is then divided by the ERU base area (1,990 square feet). The resulting multiple number of ERU's is then multiplied by the base monthly fee ($6.93 per ERU) to get the monthly fee for that specific non-residential site.

The Stormwater Drainage System has approximately 80,600 customers. While approximately 92% of the customer base is residential, the 8% non-residential customer base generates approximately 53% of the annual revenue. This again reflects the higher density of impervious area on non-residential sites.

In March of 2005, the City Commission adopted a resolution indicating their intent to increase the base stormwater fee by a total of $1.70 per ERU to fund a program to reduce stormwater pollution. The $1.70 increase is being phased in over five years, in 20% increments.

Pollution from stormwater is referred to as "non-point source" because it originates from rainwater simply running off the land where it picks up a variety of pollutants. This is to be contrasted to "point sources" such as an industrial plant discharge, or a municipal sewage treatment plant discharging into a stream. Due to its ubiquitous nature, stormwater pollution is very difficult to manage. The new stormwater pollution reduction program will focus on 20 watersheds that have been identified through research and testing by the City to have the highest pollutant loads. While not a final solution, the program is viewed as a responsible and realistic start for what will have to be a very long-term effort.

At the time of the Commissioner's decision to raise fees to fund the pollution control program, the base stormwater fee was $6.25 per ERU. Three step increases of 34-cents each have been implemented in the interim period, resulting in a current FY 2008 fee of $7.27 per ERU. The projected FY 2008 revenue based on the current fee is $14.9 million.

Selected Consolidated Utility System Statistics

Water System					
Fiscal Year Ended September 30	2003	2004	2005	2006	2007
Miles of Water Mains (1)	1,172	1,131	1,143	1,147	1,175
Plant Capacity	73.60	73.60	73.60	73.60	73.60
Daily Avg. Consumption (MGD) (2)	28.89	30.43	29.33	31.38	33.58
Residential					
Avg. No. of Customers(3)	62,848	64,138	65,795	67,486	68,394
Avg. No. of Service Points (4)	66,740	68,168	69,869	71,740	72,909
Water Sold (000)	4,759,796	5,228,427	4,974,945	5,955,449	6,179,543
Avg. Sales Per Customer (3)	71,319	76,699	71,204	83,056	84,757
Commercial					
Avg. No. of Customers(3)	6,632	6,712	6,778	6,882	7,011
Avg. No. of Service Points (4)	7,825	7,869	7,997	8,183	8,367
Water Sold (000)	4,145,123	4,500,698	4,301,022	4,791,886	5,029,763
Avg. Sales Per Customer (3)	529,746	571,953	537,829	585,590	601,143

(1) Variability in miles of water mains reflects increased precision in mapping due to use of GIS.
(2) Daily Average Consumption represents water produced, not a representation of amounts billed.
(3) Number of customers reflects bill recipients. Customer number represents actual values.
(4) Service points reflects meters in service. Multiple service points may be consolidated into a single bill. Therefore, service points are greater than customers billed. FY 2003 Service points are estimated, service points have been reported since FY 2004.

Sewer System					
Fiscal Year Ended September 30	2003	2004	2005	2006	2007
Miles of Sanitary Sewers	928	949	968	865	999
Annual Flow-Millions of Gallons	6,010	6,063	7,130	6,293	6,166
Daily Average Treatment (MGD)	16.47	16.61	19.53	17.24	16.91
Rainfall (fiscal year totals)	69.43	62.56	57.72	46.43	50.29
Gallons Treated Per Customer	102,688	94,137	107,920	92,645	95,935
Avg. No. of Customers					
Residential	57,761	58,413	59,988	61,747	62,775
Commercial	6,136	5,993	6,075	6,175	6,274

Water System Ten Largest Customers by Consumption (as of September 30, 2007)

Customer	Water Usage	Billed Amount	Percentage of Revenues
Florida State University	3,707,271	$544,004	2.45%
State of Florida	3,039,449	$471,521	2.13%
City of Tallahassee	2,120,765	$405,749	1.83%
Florida A&M University	1,676,352	$281,886	1.27%
Leon County School Board	1,163,579	$191,329	0.86%
Tallahassee Memorial Health Care	1,136,427	$154,888	0.70%
Federal Government	1,011,557	$146,650	0.66%
St. Joe/Arvida	966,865	$62,498	0.28%
Leon County Government	933,444	$138,641	0.62%
Tallahassee Community College	401,369	$62,075	0.28%

Sewer System Ten Largest Customers by Consumption (as of September 30, 2007)

Customer	Sewer Usage	Billed Amount	Percentage of Revenues
Florida State University	2,452,907	$1,894,264	2.96%
State of Florida	1,558,970	$651,090	2.16%
Florida A&M University	1,209,092	$473,658	1.57%
Federal Government	965,807	$338,284	1.12%
Leon County Government	799,049	$327,045	1.08%
Leon County School Board	828,002	$343,674	1.14%
Tallahassee Memorial Health Care	770,243	$262,745	0.87%
City of Tallahassee	281,003	$152,546	0.51%
Blairstone Apartments	227,501	$71,379	0.24%
Capital Regional Medical Center	155,592	$52,389	0.17%

Water Rates (Effective October 1, 2007)

Monthly Rate:	
Customer Charge	$ 5.41
Usage Charge Per 100 Gallons Per Month	$ 0.129
Monthly Minimum Charge:	
Nominal Meter Size (inches)	Amount
3/4 or Smaller	$ 8.64
1	$ 21.54
1 1/2	$ 43.08
2	$ 69.01
3	$ 137.89
4	$ 215.42
6	$ 430.85
8	$ 689.37

Sewer Rates (Effective October 1, 2007)

Monthly Minimum Charge:	
Nominal Meter Size (inches)	Amount
3/4 or Smaller	$ 10.85
1	$ 27.12
1 1/2	$ 54.23
2	$ 86.77
3	$ 173.54
4	$ 271.15
6	$ 542.30
8	$ 867.69
Monthly Usage Charge:	
Usage Charge Per 1000 Gallons Per Month	$ 3.46

Consolidated Utility System Debt Service Coverage (in 000s)

Fiscal Year Ended September 30	2003	2004	2005	2006	2007
Operating Revenues					
Water	$ 20,780	$ 21,783	$ 21,599	$ 23,511	$ 25,901
Sewer	26,525	28,202	28,738	30,447	34,080
Total Operating Revenues	47,305	50,075	50,337	53,958	59,981
Operating Expenses					
Water	13,397	14,109	15,975	17,669	16,243
Sewer	20,491	22,631	24,330	24,948	27,131
Total Operating Expenses	33,888	36,740	40,305	42,617	43,374
Net Operating Revenue	13,417	13,335	10,032	11,341	16,607
Gross Stormwater Revenue	11,503	11,874	14,006	14,557	15,350
Other Revenue	1,239	757	750	1,006	1,289
Total Pledged Revenue Available for Debt Service	$ 26,159	$ 25,966	$ 24,788	$ 26,904	$ 33,246
Debt Service	$ 5,944	$ 6,154	$ 5,749	$ 6,311	$ 6,318
Coverage	4.40x	4.22x	4.31x	4.26x	5.26x

CITY OF TALLAHASSEE, FLORIDA
CONSOLIDATED UTILITY SYSTEM
CONSOLIDATED DEBT SERVICE

Bond Year Ending October 1	Total	\$ 164,460,000 Series 2007	\$ 36,100,000 Series 2005	\$23,900,000 Series 2001
2008	\$ 12,929,220	\$ 6,845,683	\$ 4,156,675	\$ 1,926,863
2009	14,036,275	7,949,825	4,156,875	1,929,575
2010	15,642,075	9,559,825	4,154,675	1,927,575
2011	15,686,525	9,605,425	4,158,025	1,923,075
2012	15,695,650	9,606,625	4,162,250	1,926,775
2013	15,694,888	9,610,025	4,158,813	1,926,050
2014	15,693,238	9,605,425	4,161,063	1,926,750
2015	14,444,438	11,458,025	752,813	2,233,600
2016	14,440,788	11,458,425	752,813	2,229,550
2017	14,440,788	11,457,425	752,813	2,230,550
2018	14,435,288	11,456,425	752,813	2,226,050
2019	14,438,788	11,459,925	752,813	2,226,050
2020	13,314,988	11,457,175	1,857,813	-
2021	13,310,848	11,457,235	1,853,613	-
2022	13,314,098	11,457,735	1,856,363	-
2023	13,313,998	11,457,885	1,856,113	-
2024	13,314,528	11,456,665	1,857,863	-
2025	13,315,078	11,458,715	1,856,363	-
2026	13,313,863	11,457,250	1,856,613	-
2027	13,316,613	11,458,250	1,858,363	-
2028	13,314,613	11,458,250	1,856,363	-
2029	13,312,113	11,456,500	1,855,613	-
2030	13,318,113	11,457,250	1,860,863	-
2031	11,459,500	11,459,500	-	-
2032	11,457,250	11,457,250	-	-
2033	11,454,750	11,454,750	-	-
2034	11,456,000	11,456,000	-	-
2035	11,454,750	11,454,750	-	-
2036	11,455,000	11,455,000	-	-
2037	11,455,500	11,455,500	-	-
TOTALS	**\$ 404,229,555**	**\$ 326,298,718**	**\$ 53,298,375**	**\$ 24,632,463**

$164,460,000
CITY OF TALLAHASSEE, FLORIDA
Consolidated Utility System Revenue Bonds, Series 2007

Dated: October 1, 2007

Purpose

To pay the cost of certain capital improvements to the Utility System, funding a special account for the series 2007 Bonds and paying certain costs of issuance in connection with the issuance of the 2007 Bonds.

Security

The Bonds are secured by a pledge of and lien on the net revenues of the City's Utility System, and the gross revenues of the City's Stormwater Drainage System on parity with the City's Consolidated Utility System Revenue Bonds, Series 2001 Bonds.

Form

$164,460,000 Serial Bonds due October 1, 2037, all fully registered. The Bonds are book-entry-only and are not evidenced by physical bond certificates. Interest is payable semi-annually on each April 1 and October 1, commencing October 1, 2010.

Agents

Registrar:	US Bank, Jacksonville, Florida.
Paying Agent:	US Bank, Jacksonville, Florida.
Bond Counsel:	Squire, Sanders, & Dempsey L.L.P., Miami, Florida.

Ratings

Moody's:	Aa2
Standard and Poors:	AA
Fitch:	AA

Redemption Provisions

Optional Redemption

The Series 2007 Bonds maturing on and prior to October 1, 2017 are not subject to optional redemption. The Series 2007 Bonds maturing after October 1, 2018 are subject to optional redemption at the option of the City, in such manner as the City shall determine, as a whole or in part at any time on or after October 1, 2017 and if in part, in any order of maturity selected by the City and by lot within a maturity if less than full maturity is to be redeemed, at par, plus accrued interest to the redemption date.

$164,460,000
CITY OF TALLAHASSEE, FLORIDA
CONSOLIDATED UTILITY SYSTEM
REVENUE BONDS, SERIES 2007
Summary of Remaining Debt Service Requirements

Bond Year Ending October 1	Interest Rate	Principal	Interest	Total
2008	-	$ -	$ 6,845,683	$ 6,845,683
2009	-	-	7,949,825	7,949,825
2010	4.000%	1,610,000	7,949,825	9,559,825
2011	4.000%	1,720,000	7,885,425	9,605,425
2012	4.000%	1,790,000	7,816,625	9,606,625
2013	4.000%	1,865,000	7,745,025	9,610,025
2014	4.000%	1,935,000	7,670,425	9,605,425
2015	4.000%	3,865,000	7,593,025	11,458,025
2016	5.000%	4,020,000	7,438,425	11,458,425
2017	5.000%	4,220,000	7,237,425	11,457,425
2018	5.000%	4,430,000	7,026,425	11,456,425
2019	5.000%	4,655,000	6,804,925	11,459,925
2020	4.400%	4,885,000	6,572,175	11,457,175
2021	4.500%	5,100,000	6,357,235	11,457,235
2022	4.500%	5,330,000	6,127,735	11,457,735
2023	4.600%	5,570,000	5,887,885	11,457,885
2024	4.600%	5,825,000	5,631,665	11,456,665
2025	4.700%	6,095,000	5,363,715	11,458,715
2026	5.000%	6,380,000	5,077,250	11,457,250
2027	5.000%	6,700,000	4,758,250	11,458,250
2028	5.000%	7,035,000	4,423,250	11,458,250
2029	5.000%	7,385,000	4,071,500	11,456,500
2030	5.000%	7,755,000	3,702,250	11,457,250
2031	5.000%	8,145,000	3,314,500	11,459,500
2032	5.000%	8,550,000	2,907,250	11,457,250
2033	5.000%	8,975,000	2,479,750	11,454,750
2034	5.000%	9,425,000	2,031,000	11,456,000
2035	5.000%	9,895,000	1,559,750	11,454,750
2036	5.000%	10,390,000	1,065,000	11,455,000
2037	5.000%	10,910,000	545,500	11,455,500
TOTALS		**$ 164,460,000**	**$ 161,838,718**	**$ 326,298,718**

$36,110,000
CITY OF TALLAHASSEE, FLORIDA
Consolidated Utility System Refunding Revenue Bonds, Series 2005

Dated: October 1, 2005

Purpose

To refund a portion of the City's outstanding Consolidated Utility System Revenue Bonds Series 1995, pay the cost of certain capital improvements to the Utility System, funding a special account for the series 2005 Bonds by deposit of a surety bond, and paying certain costs of issuance in connection with the issuance of the 2005 Bonds.

Security

The Bonds are secured by a pledge of and lien on the net revenues of the City's Utility System, and the gross revenues of the City's Stormwater Drainage System on parity with the City's Consolidated Utility System Revenue Bonds, Series 1995, not refunded by the Series 2001 Bonds or the Energy System Revenue Bonds.

Form

$36,110,000 Serial Bonds due October 1, 2029, all fully registered. The Bonds are book-entry-only and are not evidenced by physical bond certificates. Interest is payable semi-annually on each April 1 and October 1, commencing October 1, 2005.

Agents

Registrar:	US Bank, Jacksonville, Florida.
Paying Agent:	US Bank, Jacksonville, Florida.
Bond Counsel:	Bryant, Miller and Olive, P.A., Tallahassee, Florida.

Ratings

Moody's:	Aaa (Aa2 underlying)
Standard and Poors:	AAA (AA underlying)
Fitch:	AAA (AA underlying)

Redemption Provisions

The Series 2005 Bonds maturing on and prior to October 1, 2015 are not subject to optional redemption.

The Series 2005 Bonds maturing after October 1, 2015 are subject to optional redemption as follows:

Date (October 1)	Principal Amount
2021	$ 1,145,000
2022	1,205,000
2023	1,265,000
2024	1,330,000
2025	1,395,000

$36,100,000
CITY OF TALLAHASSEE, FLORIDA
CONSOLIDATED UTILITY SYSTEM
REFUNDING REVENUE BONDS, SERIES 2005

Summary of Remaining Debt Service Requirements

Bond Year Ending October 1	Interest Rate	Principal	Interest	Total
2008	3.000%	$ 2,660,000	$ 1,496,675	$ 4,156,675
2009	3.000%	2,740,000	1,416,875	4,156,875
2010	3.250%	2,820,000	1,334,675	4,154,675
2011	(1)	2,915,000	1,243,025	4,158,025
2012	(2)	3,025,000	1,137,250	4,162,250
2013	(3)	3,140,000	1,018,813	4,158,813
2014	(4)	3,265,000	896,063	4,161,063
2015	(5)	-	752,813	752,813
2016	(5)	-	752,813	752,813
2017	(5)	-	752,813	752,813
2018	(5)	-	752,813	752,813
2019	(5)	-	752,813	752,813
2020	4.000%	1,105,000	752,813	1,857,813
2021	5.000%	1,145,000	708,613	1,853,613
2022	5.000%	1,205,000	651,363	1,856,363
2023	5.000%	1,265,000	591,113	1,856,113
2024	5.000%	1,330,000	527,863	1,857,863
2025	5.000%	1,395,000	461,363	1,856,363
2026	5.000%	1,465,000	391,613	1,856,613
2027	5.000%	1,540,000	318,363	1,858,363
2028	5.000%	1,615,000	241,363	1,856,363
2029	5.000%	1,695,000	160,613	1,855,613
2030	4.250%	1,785,000	75,863	1,860,863
TOTALS		**$ 36,110,000**	**$ 17,188,375**	**$ 53,298,375**

(1) Bonds maturing 2011 are in two issues: $2,165,000 at 3.0% interest rate and $750,000 at 4.00% interest rate.
(2) Bonds maturing 2012 are in two issues: $1,025,000 at 3.75% interest rate and $2,000,000 at 4.00% interest rate.
(3) Bonds maturing 2013 are in two issues: $1,140,000 at 3.75% interest rate and $2,000,000 at 4.00% interest rate.
(4) Bonds maturing 2014 are in two issues: $2,000,000 at 4.00% interest rate and $1,265,000 at 5.00% interest rate.
(5) There are no bonds maturing in 2015 through 2019.

$23,900,000
CITY OF TALLAHASSEE, FLORIDA
Consolidated Utility System Refunding Revenue Bonds, Series 2001

Dated: May 1, 2001

Purpose
To refund a portion of the City's outstanding Consolidated Utility System Revenue Bonds.

Security
The Bonds are secured by a pledge of and lien on the net revenues of the City's Utility System, and the gross revenues of the City's Stormwater Drainage System on parity with the City's Consolidated Utility System Revenue Bonds, Series 1995, not refunded by the Series 2001 Bonds or the Energy System Revenue Bonds.

Form
$23,900,000 Serial Bonds due October 1, 2019, all fully registered. The Bonds are book-entry-only and are not evidenced by physical bond certificates. Interest is payable semi-annually on each April 1 and October 1, commencing October 1, 2001.

Agents

Registrar:	US Bank, Jacksonville, Florida.
Paying Agent:	US Bank, Jacksonville, Florida.
Trustee:	US Bank, Jacksonville, Florida.
Bond Counsel:	Bryant, Miller and Olive, P.A., Tallahassee, Florida.

Ratings

Moody's:	Aaa (Aa2 underlying)
Standard and Poors:	AAA (AA underlying)
Fitch:	AAA (AA underlying)

Redemption Provisions
The Series 2001 Bonds are not subject to redemption prior to maturity.

$23,900,000
CITY OF TALLAHASSEE, FLORIDA
CONSOLIDATED UTILITY SYSTEM
REFUNDING REVENUE BONDS, SERIES 2001
Summary of Remaining Debt Service Requirements

Bond Year Ending October 1	Interest Rate	Principal	Interest	Total
2008	4.250%	$ 995,000	$ 931,863	$ 1,926,863
2009	5.000%	1,040,000	889,575	1,929,575
2010	5.000%	1,090,000	837,575	1,927,575
2011	4.500%	1,140,000	783,075	1,923,075
2012	5.500%	1,195,000	731,775	1,926,775
2013	5.500%	1,260,000	666,050	1,926,050
2014	5.500%	1,330,000	596,750	1,926,750
2015	5.500%	1,710,000	523,600	2,233,600
2016	5.500%	1,800,000	429,550	2,229,550
2017	5.500%	1,900,000	330,550	2,230,550
2018	5.500%	2,000,000	226,050	2,226,050
2019	5.500%	2,110,000	116,050	2,226,050
TOTALS		**$ 17,570,000**	**$ 7,062,463**	**$ 24,632,463**

TALLAHASSEE REGIONAL AIRPORT

Introduction

The City of Tallahassee owns and operates the Tallahassee Regional Airport (TLH), located on a 2,749-acre site, seven miles southwest of the City's central business district and within the corporate City limits. The Airport's market service area is a 100-mile radius, which includes Tallahassee and 32 counties in Florida, Georgia, and Alabama. In addition to a commercial passenger facility, TLH hosts an air cargo facility, a general aviation terminal that provides corporate and private flying services, and various facilities for civil and military training operations.

Air Service Discussion

The airline industry can be described as an industry with substantive financial, customer service and anti-competitive issues, whose economic recovery is not expected for a number of years. Four of the six major legacy carriers (Delta, Northwest, United and US Airways) filed for and have come out of bankruptcy. Over capacity and fuel pries have continued the airlines' precarious financial position.

Tallahassee Regional Airport, not unlike other small hub airports throughout the country, has experienced high airfares and limited air service. High airfares were determined to be one of the leading inhibitors to economic development. When combined with Tallahassee's dependence on state government employment and its continued employment downsizing, economic development became an even more critical component for Tallahassee's future community vitality. To address this issue, the City embarked upon a strategy of improving competition in order to lower airfares and upgrade services. The goals of this program included: securing a low fare carrier, improving interstate/instrastate competition and services, and pursuing additional airline hubs.

The City was able to attract service by Northwest/Pinnacle to their Memphis hub in 2000; Delta Connection added jet service to Fort Lauderdale in 2001. During 2004, Continental Express began jet service to its Houston hub and has since increased frequency, US Airways upgraded service to its Charlotte hub with regional jets and has added flights, a Continental Connection (Gulfstream International Airlines) added frequency to Tampa, Orlando, and West Palm Beach. Beginning March 2008, American Eagle, an affiliate of American Airlines, will offer two daily flights between Tallahassee and its Miami hub.

TLH is primarily an origination/destination airport with the majority of passengers being on business related travel rather than leisure related travel. Although passenger traffic slowed in FY 2007, TLH had 965,813 passengers (a 3.94% decrease). The decrease is the result of high airfares due to factors such as higher fuel costs and reduced capacity within the airline industry. Additionally, flight frequency has been reduced.

In order to remain competitive and continue the City's strategy of improving competition in order to lower airfares and upgrade services, the City Commission established a $300,000 recurring project in March 2002 to provide funding for various incentives to airlines similar to those being provided at other airports to help in achieving their goals. In October 2007, the funding to the project was increased to $600,000. TLH has and will continue to communicate with carriers regarding their potential share of the market by demonstrating the potential market opportunities and profitability of providing service to Tallahassee.

Financial Discussion

The Airport is self-supporting and does not receive a subsidy from any local government or make any payments other than for services received to any local government. Citizens who do not use the airport do not contribute to the costs of its operations. Its operations are funded through concessions, parking fees, terminal and general aviation leases, and landing fees. Signatory airline agreements are structured on a residual basis whereby 60% of the Airport's net income is utilized to reduce airline rates and charges. The non-signatory airlines are required to pay 125% of the signatory airline rates.

In FY 2007, actual operating income, before transfers, was $2,873,629 or $478,620 less than budget. Actual expenditures were 17% above budget projections in part due to the Transportation Security Administration's implementation of a "Code Orange" threat condition in August 2006 that continues to be in effect with escalating passenger security costs. In concert with these events, the Airport's insurance costs increased by $311,254. On the other hand, revenues were 8% above projections primarily due to interim adjustments to airline rates and charges.

The Airport's Capital Improvement Program (CIP) is primarily supported from Federal Aviation Administration (FAA) entitlement grant funding, Passenger Facility Charge (PFC) funds, and Florida Department of Transportation (FDOT) grants. The doubling of FAA grants starting in 2001, and the availability of PFC funds with the successful completion of the Airport's Noise Mitigation Program, have almost tripled the amount of funds available for construction projects and accelerated the Airport's implementation of many projects. In the past five fiscal years (FY 2003 - FY 2007), the Airport has accepted over $22.99 million in grant funds from FAA and FDOT. This includes approximately $3.28 million per year from the FAA and $1.32 million from FDOT. These funds have been used primarily for airfield improvement and refurbishment projects, including construction of two new aprons, overlay of all taxiways, refurbishment of existing aprons, and stormwater controls.

Tallahassee Regional Airport (TLH) currently has two PFC programs open. The first open program began collections in October 2002 and was fully funded in May 2007 with total collections of $11.57 million. Most of the first program funds ($8.85 million) are earmarked for rehabilitation and renovation of the Ivan Munroe Passenger Terminal with the remainder used for airfield, security, and planning projects. The second program began collections in May 2007 and expands over a nine-year period with estimated collections of $25.28 million. Terminal work will account for $14.9 million of program funds with the remainder going to airfield, security, and planning projects. Over the past three years, several significant Terminal and Airfield projects have been completed or are very near completion.

(a) Terminal Projects: Airport staff have designed and built-out a variety of projects that improve the terminal building during the past four years. Projects include replacement of the chillers and boilers; addition of outdoor air "pre-treatment" units; addition of two passenger loading and the refurbishment of six existing passenger loading bridges to accommodate regional jets and to match equipment to aircraft utilizing TLH; the opening of two unused gates upgrades; refurbishment of public restrooms; replacement of inbound baggage handling system; renovation of offices areas, training room, and an airport operations communication and control center; build-out of new offices and work space for the airport police unit; the addition of a dry-pipe fire extinguishment system for the terminal building areas exposed to weather; conversion of existing airline office space to better provide for potential new airlines; and replacement of the older passenger information system with a Multi User Passenger Information Display System that offers a state of the art computer-based, internet-assisted system. Future terminal projects include replacement of the outbound baggage handling system including space for the Transportation Security Administration's (TSA) baggage screening equipment; replacement of the roof and weather proofing exterior wall coverings; replacement of automatic entrance doors;

replacement/enhancement to terminal floors, ceilings, and other passenger enhancements; and other general improvements to aesthetics and passenger convenience items.

(b) Airfield Projects: Three significant groups of projects have been the focus of airfield improvements. The first group consists of projects that enhance existing infrastructure and keep the Airport operationally viable and includes: the refurbishment of all existing taxiways that enhanced the life of pavements and keeps the infrastructure viable for another 10 to 15 years; and a major stormwater control project that improved drainage along Runway 9-27, adjacent taxiways, and the terminal apron. The second groups of projects were those that enhance the safety and security of the airfield and included: the construction of 10 miles of new wildlife fence to keep animals out of the airfield areas and construction of a perimeter security road adjacent to the wildlife fence to allow monitoring of the perimeter in all weather conditions. Finally, the third group of projects focused on increasing cargo operations and included projects that expanded the existing cargo apron and added a second cargo apron allowing for the addition of a second cargo carrier access roads and security for the cargo apron and adjacent areas, and infrastructure improvements for a new cargo sorting facility.

Going forward, the Capital Improvement Plan includes additional refurbishment of the terminal, continued rehabilitation of airfield pavements, reconstruction of Runway 9/27, enhancements to airport security systems, and other initiatives to support air service and general aviation in the Tallahassee region.

Management Discussion of Operations

The Aviation Department consists of six divisions. The Management Division provides overall direction and guidance for the Airport. Responsibilities include: monitoring and responding to federal, state and local requirements, meeting passenger service demands and expectations, business development, community relations, strategic planning, and providing safe and efficient airport operations at a reasonable cost.

The Business Services Division is responsible for lease management, concessions, restaurant, tenant relations, business recruitment, marketing and research, and demographic reporting and analysis.

The Finance and Administration Division is responsible for financial management, accounting, budgeting, planning and development, grant administration, personnel and payroll, and administrative support for the Airport's various programs.

The Facilities Maintenance Division is responsible for maintaining runways and safety areas, mowing and landscaping Airport property, repair and electrical services, housekeeping and mechanical service for the terminal facility.

The Operations Division is responsible for police and fire rescue services, safety, security, training, general aviation, ground transportation, and FAA compliance.

The Capital Program Administration Division is responsible for identifying capital program needs, monitoring stormwater management and environmental compliance, and providing construction management and engineering liaison services that includes design plans and specifications, monitoring on-going construction activities, and meeting other regulatory requirements of the City, FAA, and FDOT.

Airport Financial Statistics

For Fiscal Year Ending September 30	2003	2004	2005	2006	2007
Revenue Per Enplaned Passenger	$ 16.64	$ 16.45	$ 17.03	$ 19.76	$ 23.35
Debt Per Enplaned Passenger	14.27	12.48	11.15	11.44	10.43

Aircraft Operations - Landings and Take-offs

For Fiscal Year Ending September 30	2003	2004	2005	2006	2007
Air Carrier Operations (1)	5,959	5,099	6,370	4,735	4,434
Air Taxi Operations (2)	26,906	28,622	30,989	29,995	29,147
General Aviation					
Itinerant Operations	38,023	39,114	37,380	37,688	37,041
Local Operations	14,251	12,665	11,422	12,564	13,120
Military					
Itinerant Operations	13,491	11,215	10,749	12,341	10,468

(1) Consists of planes of 50 or more seats

(2) Consists of planes having less than 50 seats

Enplanements by Carrier

For Fiscal Year Ending September 30	2003	2004	2005	2006	2007
USAirways/ Piedmont	29,863	11,417	-	-	110
Mesa (1)	-	25,109	31,465	6,851	339
CC Air (2)	1,504	-	-	-	-
Air Midwest (3)	234	-	-	-	-
PSA (4)	-	-	22,333	61,211	74,205
Delta	180,578	210,604	233,992	190,555	129,118
Comair (11)	93,446	60,914	53,163	11,129	2,351
Atlantic Southeast	45,798	40,278	22,339	22,268	56,132
Skywest (5)	24,884	12,095	-	-	-
Chautauqua (6)	43,033	101,466	151,006	83,958	13,509
Freedom (12)	-	-	-	41,710	108,162
Northwest Airlink	33,286	32,380	38,942	38,678	44,700
AirTran Airways (7)	44,982	8,754	-	-	-
AirWisconsin (8)	58,859	74,266	-	-	-
Continental Connection/Gulfstream (9)	-	445	16,118	26,583	27,336
Express Jet Airlines/Continental Express (10)	-	6,986	19,669	26,458	30,056
Total Enplanements	556,467	584,714	589,027	509,401	486,018

(1) Mesa discontinued services May 2006.
(2) CC Air services discontinued October 2003.
(3) Air Midwest discontinued service October 2003.
(4) PSA commenced services February 2005.
(5) Skywest discontinued services April 2004.
(6) Chautauqua services commenced January 2003.
(7) AirTran discontinued services September 2004.
(8) AirWisconsin commenced January 2003 discontinued January 2004.
(9) Continental Connection commenced service September 2004.
(10) Express Jet Airlines/Continental Express commenced May 2004.
(11) ComAir discontinued services November 2005.
(12) Freedom Airlines commenced service January 2006.

Selected Airport Statistics

Historical Operating Results in (000s)

For Fiscal Years Ending September 30

	2003	2004	2005	2006	2007
Operating Revenues (1)	9,257	9,616	10,030	10,068	11,347
Prepaid Fees Credit (1)	438	665	1,149	1,370	1,147
Operating Expenses (2)	(7,755)	(7,702)	(8,313)	(8,150)	(9,104)
Non-operating Revenues(Expenses)	60	44	51	134	154
Revenues Available for Debt Service	$ 2,000	$ 2,623	$ 2,917	$ 3,422	$ 3,544
Sr. Lien Debt Service	$ 978	$ 1,058	$ 963	$ 960	$ 962
Sr. Lien Debt Service Coverage	2.05x	2.48x	3.03x	3.56x	3.68x

(1) For the purposes of calculating debt service coverage in accordance with the Resolution rate covenant, the Operating Revenues include Prepaid Fees Credits from the Signatory Airlines. However, in accordance with Generally Accepted Accounting Principles, such Prepaid Fees Credits are not reflected as operating revenues in the City's Comprehensive Annual Financial Report.

revenues in the City's Comprehensive Annual Financial Report.

(2) Excluding depreciation and amortization.

$7,355,000
City of Tallahassee, Florida
Airport System Revenue Refunding Bonds, Series 2004

Dated: August 31, 2004

Purpose

To refund the outstanding City of Tallahassee Airport System Revenue Bonds, Series 1995.

Security

The City has irrevocably pledged the Net Revenues of the Airport System to the payment of the principal of, interest on, and any premium paid upon the redemption of the Series 2004 Bonds. At the time of the issuance of the Series 2004 Bonds, there will be deposited into the Series 2004 Reserve Account created in the Reserve Fund an amount equal to the Reserve Requirement on the Series 2004 Bonds.

Form

$7,355,000 Serial Bonds

The Bonds are issued in fully registered form in denominations of $5,000, or multiples thereof. The bonds are book-entry-only and are not evidenced by physical bond certificates. Interest payments on the Series 2004 Bonds are payable October 2004 and on each April 1 and October 1 thereafter.

Agents

Registrar: US Bank, Jacksonville, Florida.
Paying Agent: US Bank, Jacksonville, Florida.
Bond Counsel: Bryant, Miller and Olive, P.A., Tallahassee, Florida.
Insurance: AMBAC Indemnity Corporation.

Ratings

Fitch: AAA
MOODY'S: AAA

$7,355,000

CITY OF TALLAHASSEE, FLORIDA

AIRPORT SYSTEM REVENUE REFUNDING BONDS, SERIES 2004

Summary of Remaining Debt Service Requirements

Bond Year Ending October 1	Interest Rate	Principal	Interest	Total
2008	3.000%	$ 780,000	$ 182,738	$ 962,738
2009	3.250%	800,000	159,338	959,338
2010	3.500%	825,000	133,338	958,338
2011	3.750%	855,000	104,463	959,463
2012	4.000%	885,000	72,400	957,400
2013	4.000%	925,000	37,000	962,000
TOTALS		**$ 5,070,000**	**$ 689,275**	**$ 5,759,275**

OTHER DEBT FINANCING

Sunshine State Governmental Financing Commission

The Sunshine State Governmental Financing Commission (the "Commission") was created in 1985 through interlocal agreement between the City of Tallahassee and the City of Orlando, Florida. Subsequently, other Florida governments joined the Commission, including 11 additional cities and three counties. The Commission was created to provide large, sophisticated governments the opportunity to work together to create low cost, flexible financing instruments.

Variable Rate Loan

In 1986, the Commission sold $300 million in multi-modal variable rate revenue bonds and made the proceeds available to its members. As a multi-modal program, the loan pool requires both supporting reimbursement (letter or line of credit) and remarketing agreements. The program documents provide that each loan is responsible for its proportionate share of the accrued interest on the bonds, together with all on-going administrative costs including letter of credit fees, remarketing cost, trustee fees, and paying agent fees. Interest and administrative costs on the loans are billed by the Trustee on a monthly basis by the 5th of each month and are deemed delinquent if not paid by the 15th. All loans are independent and there is no cross indemnification between and among the participants. Prepayment of a portion or all of the outstanding balance can be made at any time without penalty.

As of September 30, 2007, the City had outstanding six loan agreements with the Commission under this program, as described below:

- $18,200,000 in November 1986; secured by a covenant to budget and appropriate from all non-ad-valorem revenues of the City and has no specific claims on any revenue stream; mandatory amortization of principal in equal amounts during the years 2011-2016, with all principal to be retired by January 30, 2016; as of September 30, 2007 the balance outstanding on this loan was $16,999,730;
- $3,550,000 in May 1991, description same as (1); September 30, 2007 balance of $3,550,000;
- $1,150,000 in September 1991; description same as (1); September 30, 2007 balance of $1,150,000;
- $36,500,000 in April 1999; secured by a pledge of subordinate revenues from the Energy System; the City intends to make annual payments of principal, in addition to the interest, even though this loan has a required final maturity of 2016; September 30, 2007 balance of $31,235,000;
- $7,909,000, in April 2001; secured by a pledge of subordinate revenues from the Energy System; the City intends to make annual payments of principal, in addition to the interest, even though this loan has a final maturity of 2015; September 30, 2007 balance of $6,796,314; and
- $5,050,000, in April 2001; secured by a covenant to budget and appropriate from all non ad-valorem revenues of the City and has no specific claims on any revenue stream; interest to be paid monthly with annual principal payments due on October 1 beginning in 2001; loan has a final maturity of 2015; September 30, 2007 balance of $3,343,223.

Commercial Paper Program

In order to meet the demands of its members the Commission created a second borrowing pool in 1994. The 1994 program is a true commercial paper program wherein the Commission, simultaneous with the origination of a loan, issues additional commercial paper in a like amount. In addition to the security pledged by the individual borrowers on their loans, all loans are secured by bond insurance provided either by Ambac, FGIC, MBIA, or FSA. As with the 1986 program, there is no cross indemnification among borrowers, and borrowers are contractually obligated to repay the principal as set forth in their loan agreements, and to pay their pro-rata share of the interest on the outstanding commercial paper, along with all related costs of the Commission associated with operating and maintaining the program.

As of September 30, 2007, the City has outstanding loan agreements with the Commission under this program, as described below:

- $9,265,000 Electric System Loan, secured by a pledge of subordinate revenues from the Electric System. The proceeds of this loan were for a portion of the initial payment on the General Electric Long-Term Services Agreement for Purdom Unit 8. The final maturity of this loan was paid out October 1, 2007;
- $11,370,000 Gas System Loan, secured by a pledge of subordinate revenues from the Gas System, for the purpose of Gas System expansion and improvements. The City intends to make annual payments of principal, in addition to the interest, even though this loan has a required final maturity of 2016. September 30, 2007 balance of $9,077,000;
- $10,000,000 General Government Loan maturing October 1, 2025, secured by a covenant to budget and appropriate from all non-ad-valorem revenues of the City and has no specific claims on any revenue streams. September 30, 2007 balance of $9,000,000; and
- $10,550,000 General Government Loan maturing October 1, 2030, secured by a covenant to budget and appropriate from all non-ad-valorem revenues of the City and has no specific claims on any revenue streams. September 30, 2007 balance was $10,340,000.

Conduit Issues, Non-Profit Organizations

The City has also acted as a conduit for the issuance of bonds for three non-profit organizations in the City: Tallahassee Memorial HealthCare, Inc., Tallahassee Community College Foundation, Inc., and Florida State University Schools, Inc.

Tallahassee Memorial HealthCare, Inc. currently has five bond issues outstanding for which the City acted as a conduit. Tallahassee Community College, Inc. has one such issue outstanding, and Florida State University Schools, Inc. has two issues outstanding.

Conduit Issues, Industrial Development and Industrial Revenue Bonds

From time to time the City also acts as a conduit issuer for private industries in the issuance of Industrial Development Revenue Bonds. Originally, there were two issues for Rose Printing. A second issue was called and refinanced by the issuer during FY 2004. The refinancing paid off the full amount of this second issue; the refinancing was accomplished without City involvement. There is currently one issue of Industrial Development Revenue Bonds outstanding for which the City has acted as the conduit issuer. These bonds are issued pursuant to an indenture of trust between the City and a trustee, with the entity on whose behalf the bonds are issued being solely responsible for their repayment, with no resulting liability on behalf of the City. The Industrial Development Revenue Bond currently outstanding was issued as follows:

- $2,200,000 City of Tallahassee, Florida Industrial Development Revenue Bonds (Rose Printing Company, Inc. Project), Series 2000 A. Trustee - US Bank, Jacksonville, Florida.