

CITY OF MOBILE, ALABAMA

\$55,461,335.90 GENERAL OBLIGATION REFUNDING
AND IMPROVEMENT WARRANTS, SERIES 1998
CUSIP NUMBER 607114E35
(The "Series 1998 Warrants")

\$31,430,000 GENERAL OBLIGATION WARRANTS
SERIES 2001
CUSIP NUMBER 607114K87
(The "Series 2001 Warrants")

\$63,410,000 GENERAL OBLIGATION REFUNDING
AND IMPROVEMENT WARRANTS, SERIES 2006
CUSIP NUMBER 607114Q73
(The "Series 2006 Warrants")

\$57,000,000 GENERAL OBLIGATION WARRANTS
SERIES 2008
CUSIP NUMBER 607114R98
(The "Series 2008 Warrants")

The City of Mobile, Alabama (the "City") issued the Series 1998 Warrants, the Series 2001 Warrants, the Series 2006 Warrants, and the Series 2008 Warrants.

By letter dated August 23, 2013, the Tax-Exempt Bond function ("TEB") of the Internal Revenue Service notified the City that it would conduct an examination of the Series 2006 Warrants. The letter recited that "your debt issuance was selected for examination as part of a project/initiative involving compliance of advance refunding bonds with section 103 of the Internal Revenue Code" and "at this time, we have no reason to believe that your debt issuance fails to comply with any of the applicable tax requirements."

On January 30, 2014, TEB issued an Information Document Request (the "IDR") in which it asserted that the Series 2006 Warrants are taxable. The City believed that all applicable requirements were satisfied, and accordingly, it disagreed with TEB's assertion. Negotiations between the City and TEB ended during August 2014 without a resolution.

TEB initiated examinations of the Series 1998 Warrants, the Series 2001 Warrants, and the Series 2008 Warrants shortly after the negotiations relating to the Series 2006 Warrants ended.

With respect to the Series 1998 Warrants, TEB advised the City by letter dated September 24, 2015 that "we have decided to withdraw our letter of August 8, 2014, advising that you that the debt issuance described above had been selected for examination."

With respect to the Series 2001 Warrants, TEB advised the City by letter dated September 26, 2014 that "we have decided to withdraw our letter of August 8, 2014, advising you that the debt issuance described above had been selected for examination."

With respect to the Series 2008 Warrants, TEB advised the City by letter dated September 25, 2015 that "we have recently completed our examination of the bond issue(s) named above . . . [and] we have made a determination to close the examination with no change to the position that interest received by the beneficial owners of the Bonds is excludible from gross income under section 103 of the Internal Revenue Code."

With respect to the Series 2006 Warrants, TEB issued a Notice of Proposed Issue (the "NOPI") on September 23, 2015. The analysis in the NOPI largely mirrors the analysis set forth in the IDR.

The City continues to believe all applicable requirements were satisfied.

The City expects that TEB will issue a proposed adverse determination with respect to the Series 2006 Warrants if it and TEB are unable to negotiate a resolution. If TEB issues a proposed adverse determination, the City will respond by submitting a protest, including a request for review by the Office of Appeals ("Appeals") of the Internal Revenue Service.

Appeals is independent of the Internal Revenue Service's examination functions, including TEB. As stated on the Internal Revenue Service's web site, Appeals' mission is to "resolve tax controversies, without litigation, on a basis which is fair and impartial to both the government and the taxpayer"

Review by Appeals of proposed adverse determinations issued by TEB is mandated by section 3105 of the Internal Revenue Service Restructuring and Reform Act of 1998.

For additional information, please contact the City's special tax counsel, Bradley S. Waterman, at 202 682 1616.

Dated: November 12, 2015